# Tying life together with the invisible thread of security

**ANNUAL REPORT**
**of the Sava Re Group and Sava Re d.d.**
**2018**

SAVA Re
GROUP

# Declaration of the management board

To the best of our knowledge and in accordance with the International Financial Reporting Standards, the consolidated and separate financial statements give a true and fair view of the financial position and profit or loss of the Sava Re Group and Sava Re d.d. The business report gives a fair view of the development and performance of the Group and the Company, and their financial position, including a description of the principal risks that the consolidated companies are exposed to.

**Ljubljana,**
28 March 2019

**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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# Key financials

| (EUR, except percentages) | Sava Re Group | | Sava Re | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Total segments** | | | | |
| **Operating revenues** | 540,457,734 | 492,353,713 | 143,406,470 | 137,407,141 |
| Year-on-year change | 9.8% | 2.0% | 4.4% | -3.7% |
| **Gross premiums written** | 546,299,539 | 517,233,431 | 151,636,216 | 153,219,752 |
| Year-on-year change | 5.6% | 5.5% | -1.0% | 3.9% |
| | | | | |
| Net return on revenue (net result / all income other than investment and commission income), excluding the effect of exchange differences | 8.0% | 6.5% | 30.7% | 25.6% |
| Net expense ratio, including all income other than from investing and excluding effects of exchange differences | 32.5% | 31.4% | 33.2% | 31.3% |
| | | | | |
| Net investment income of the investment portfolio | 17,768,423 | 15,729,446 | 32,431,885 | 25,331,749 |
| Return on the investment portfolio | 1.6% | 1.5% | 6.9% | 5.6% |
| Net investment income of the investment portfolio, excluding exchange differences | 17,922,647 | 21,660,810 | 32,528,406 | 30,815,290 |
| Return on the investment portfolio, excluding exchange differences | 1.7% | 2.0% | 6.9% | 6.8% |
| | | | | |
| **Profit or loss before tax** | 55,260,572 | 39,880,983 | 45,021,864 | 34,763,864 |
| Year-on-year change | 38.6% | -1.9% | 29.5% | -0.6% |
| **Profit or loss, net of tax** | 43,011,849 | 31,094,908 | 41,867,497 | 32,974,192 |
| Year-on-year change | 38.3% | -5.5% | 27.0% | 0.3% |
| **Comprehensive income** | 36,448,443 | 32,790,903 | 40,787,362 | 33,008,694 |
| Year-on-year change | 11.2% | 12.9% | 23.6% | -2.0% |
| | | | | |
| **Annualised return on equity** | 13.1% | 10.1% | 13.7% | 11.7% |
| Net earnings/loss per share | 2.76 | 2.00 | 2.70 | 2.13 |
| **Reinsurance + non-life** | | | | |
| **Gross premiums written** | 457,228,348 | 427,151,909 | 151,636,216 | 153,219,752 |
| Year-on-year change | 7.0% | 5.8% | -1.0% | 3.9% |
| | | | | |
| **Net incurred loss ratio** | 57.0% | 58.9% | 57.5% | 60.2% |
| **Net incurred loss ratio, excluding the effect of exchange differences** | 57.0% | 60.5% | 57.7% | 65.0% |

| (EUR, except percentages) | Sava Re Group | | Sava Re | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Operating expenses, including reinsurance commission income | 142,437,187 | 129,817,433 | 45,032,958 | 41,178,447 |
| **Net expense ratio** | 34.2% | 34.1% | 33.7% | 31.5% |
| **Gross expense ratio** | 32.2% | 31.5% | 31.4% | 28.7% |
| | | | | |
| **Net combined ratio** | 92.9% | 94.4% | 90.9% | 93.1% |
| **Net combined ratio, excluding the effect of exchange differences** | 92.9% | 95.6% | 90.8% | 96.4% |
| **Reinsurance + non-life + life** | | | | |
| **Gross premiums written** | 544,080,496 | 515,114,700 | 151,636,216 | 153,219,752 |
| Year-on-year change | 5.6% | 5.3% | -1.0% | 3.9% |
| | | | | |
| Operating expenses, including reinsurance commission income | 166,528,127 | 152,707,999 | 45,032,958 | 41,178,447 |
| **Net expense ratio** | 33.1% | 32.6% | 33.7% | 31.5% |
| **Gross expense ratio** | 31.6% | 30.7% | 31.4% | 28.7% |
| **Total operating segments** | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| **Total assets** | 1,705,947,263 | 1,708,348,067 | 606,331,055 | 580,886,180 |
| Change on 31 Dec of prior year | -0.1% | 2.2% | 4.4% | 2.2% |
| | | | | |
| **Shareholders' equity** | 340,175,455 | 316,116,895 | 319,355,361 | 290,966,155 |
| Change on 31 Dec of prior year | 7.6% | 6.4% | 9.8% | 7.6% |
| | | | | |
| **Net technical provisions** | 1,103,231,374 | 1,127,139,014 | 212,735,857 | 212,565,592 |
| Change on 31 Dec of prior year | -2.1% | 1.6% | 0.1% | 2.2% |
| | | | | |
| Book value per share | 21.95 | 20.40 | - | - |
| No. of employees (full-time equivalent basis) | 2,416.7 | 2,388.8 | 110.1 | 96.5 |
| | | | | |
| Solvency ratio under Solvency II rules | - | 220% | - | 283% |

Notes:
- For details on the calculation of ratios and the net investment income, see the glossary in Appendix C.
- The net investment income of the investment portfolio does not include the net investment income relating to assets of policyholders who bear the investment risk since such assets do not affect the income statement. The mathematical provision of policyholders who bear the investment risk moves in line with this line item.
- Figures on return and net investment income of the investment portfolio for 2017 differ from those published in the 2017 annual report as the figures then published did not include investment property data relating to depreciation of equipment.

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# Achievement

**Our first steps are a major milestone in our lives. Well past this milestone, we keep setting ourselves higher goals, and are proud when we reach them.**

# 1 Letter from the chairman of the management board[1]

## We are looking back on an exceptionally good year

I am very pleased to announce that the Sava Re Group has generated a profit of EUR 43 million in 2018, which is 38.3% higher than in the previous year and almost 10% better than planned. We produced an excellent return on equity of 13.1% in 2018. These results reflect a remarkable performance by the entire Sava Re Group, with better profitability in every segment.

[1] GRI 102-14

The Group's operating revenues grew by 9.8% in 2018, the result of growth in premiums of the existing Group companies as well as the operations of new Group companies that joined the Group in 2018. In the first quarter, we managed to finalise three acquisitions: the pension company NLB Nov Penziski Fond based in North Macedonia and subsequently renamed Sava Penzisko Društvo; the Serbia-based insurer Energoprojekt Garant, which was merged with the Group's Serbian non-life insurer Sava Neživotno Osiguranje (SRB); and the Slovenian-based assistance service provider TBS Team 24. The successful integration of these companies has already contributed to better profitability. The expansion of the Group within the insurance sector and through ancillary services proved effective, as this is the way we can broaden our product range and improve the quality of our services, evolving into a comprehensive service provider for our customers at all stages of their lives.

## Premium growth and improved profitability

The Sava Re Group grew gross premiums written by 5.6% in 2018. The bulk of this growth was contributed by the 10.9% growth of the non-life business of Zavarovalnica Sava in Slovenia, which is also the result of the successful merger of Zavarovalnica Maribor and Zavarovalnica Tilia into one insurer under a single brand recognisable across Slovenia. The operations of Zavarovalnica Sava are also more profitable thanks to our unlocking of the synergistic benefits from the combined insurer.

By contrast, the gross life premiums written in Slovenia shrank by 2.9% year on year. This decline in Zavarovalnica Sava is mainly due to the large number of policy maturities, part of which we managed to compensate with new policies written.

In 2018, we are particularly proud of the fact that we improved the profitability of our foreign operations and achieved high premium growth. International non-life business grew by 12.5%, while international life business saw growth of 17.8%. In recent years, we see our non-Slovenian markets grow faster than mature markets, which provides the Sava Re Group with good income growth opportunities.

**€43 million**

Record net profit

Gross premiums written in the reinsurance segment fell by 7.2% in 2018 as the result of strict underwriting discipline and selective underwriting. Our strategy of designing a balanced reinsurance portfolio with selective underwriting proved adequate in 2018, as this segment too saw a solid growth in profits.

2018 was a year of relatively low incidence of large claims for our insurance and reinsurance business, as reflected in more favourable incurred loss and combined ratios, as well as in the Group's improved performance.

## Strengthening customer satisfaction and brand loyalty

The year 2018 was also dedicated to strengthening the brands under the Sava Re umbrella. In line with our strategy of putting the customer in the centre of everything we do and through our modernisation and digitisation projects at Zavarovalnica Sava in Slovenia, we improved the claims reporting process, streamlined damage removal and strengthened customer communication using the latest media to attract the younger generations.

Following its adopted strategy, in 2018 Sava Re acquired TBS Team 24, entering the assistance services market, which will give the Group members more room to take advantage of synergy benefits in motor, health and home owners insurance. In this way, Zavarovalnica Sava could offer our own assistance covers, and thus shorten the time required to confirm services, which in turn increased customer satisfaction among policyholders, with an improvement in both response times and services in all areas. In 2019 we are planning to roll out our assistance services to the countries of the Adria region where the Group has insurance operations.

Our pension insurance services in North Macedonia perfectly complement our product range for our customers in this market. And the number of insured persons covered under the second and third pillar pension system in North Macedonia strengthens the Sava Re brand significantly.

## Improved credit ratings, reflecting the Group's strong capital position

We are also very proud of the improved credit ratings awarded in 2018. Following their regular annual rating reviews in 2018, the rating agencies Standard & Poor's and AM Best both raised their financial strength ratings for Sava Re to "A", which reflects the Group's strong capital position over a longer period, its improved market position and profitability achieved as a result of its expansion through organic growth and acquisitions. Standard & Poor's also gave a favourable assessment of the completed acquisitions in the markets where the Group is already present, which further bolstered the Group's market position.

The responses we have received so far to our improved ratings confirm our expectations that they will support our strategy of selective and profitable growth in international reinsurance markets.

## Striving for continuous progress and innovation

We performed exceptionally well in 2018 but raised the bar even higher for 2019, planning growth in operating revenues and profit while maintaining a strong capital position.

While the Group is currently working hard to deliver on its strategy of bringing the customer into the centre of its activities, we are aware that striving to meet our customers' high expectations will always be our priority. This aspect of our business remains key to our future success.

Our development efforts will remain focused on Group expansion. At the end of 2018, we signed a deal to acquire a majority stake in KBM Infond, an asset management company, to complete the Group's range of financial services under our strategy for the Slovenian market.

Sustainability is another aspect of our business that is becoming more prominent in all our activities. Aware of the changes in our environment and their effect on our business, we will continue to explore investment opportunities in environmental and sustainability-oriented projects – and this underpins our sustainability efforts in the communities and environment of which we are a part.

I would like to take this opportunity to thank all our stakeholders for the support and trust placed in us. We will do our best to honour this trust with our continued commitment to quality services for our customers and superior business performance at all levels.

Marko Jazbec
Chairman of the Management Board of Sava Re d.d.

# 2 Profile of Sava Re and the Sava Re Group

## 2.1 Sava Re company profile[2]

| Company name | Sava Re d.d. |
|---|---|
| Business address | Dunajska 56, 1000 Ljubljana, Slovenia |
| Telephone (switchboard) | (01) 47 50 200 |
| Fax | (01) 47 50 264 |
| E-mail | info@sava-re.si |
| Website | www.sava-re.si |
| ID number | 5063825 |
| Tax identification number | 17986141 |
| LEI code | 549300P6F1BDSFSW5T72 |
| Share capital | EUR 71,856,376 |
| Shares | 17,219,662 no-par-value shares |
| Management and supervisory bodies | MANAGEMENT BOARD: Marko Jazbec (chairman)<br>Srečko Čebron, Jošt Dolničar, Polona Pirš Zupančič |
| | SUPERVISORY BOARD: Mateja Lovšin Herič (chair)<br>Keith William Morris (deputy chair)<br>Andrej Kren<br>Davor Ivan Gjivoje<br>Mateja Živec (employee representative)<br>Andrej Gorazd Kunstek (employee representative) |
| Date of entry into court register | 10 December 1990, Ljubljana District Court |
| Certified auditor | Ernst & Young d.o.o., Dunajska 111, 1000 Ljubljana, Slovenia |
| Largest shareholder and holding | Slovenski državni holding d.d. (Slovenian Sovereign Holding)<br>17.7% (no-par-value shares: 3,043,883) |
| Credit ratings: Standard & Poor's<br>AM Best | A/stable/; July 2018<br>A/stable/; November 2018 |
| Contact details for annual and sustainability reports | ir@sava-re.si |

The Company has no branches.

[2] GRI 102-1, 102-3, 102-5, 102-53

# 2.2 Significant events in 2018

**January** In January 2018, Polona Pirš Zupančič began her five-year term of office as a member of the management board. After Polona Pirš Zupančič had joind the board, the Sava Re management board continued to operate as a four-member body. Mateja Treven concluded her role as management board member on 13 January 2018.

**January** On 31 January 2018, Sava Re met all suspensive conditions, becoming the owner of a 75% stake in TBS Team 24.

**February** In accordance with article 171(7) of the Insurance Act (ZZavar-1; Official Gazette of the Republic of Slovenia, no. 93/15), Sava Re d.d. signed an outsourcing contract with Zavarovalnica Sava d.d. and Sava Pokojninska Družba d.d. under which Zavarovalnica Sava d.d. and Sava Pokojninska Družba d.d. transferred performance of the internal audit key function to Sava Re d.d. as of 1 February 2018 for an indefinite period.

**March** On 13 March 2018, Sava Re met all suspensive conditions, becoming the owner of a 100% stake in NLB Nov Penziski Fond AD Skopje.

**March** Having satisfied all suspensive conditions in March 2018, Sava Re became the owner of 92.94% of the Serbian-based company Energoprojekt Garant. In July 2018, following its takeover bid and subsequent squeeze-out procedure, Sava Re become the sole owner of the company. At the year end, Sava Re merged the acquired company with its Serbian non-life insurance subsidiary Sava Neživotno Osiguranje (SRB).

**April** In April 2018, Zavarovalnica Sava signed a purchase and sale contract with ERGO Austria International AG and ERGO Versicherung Aktiengesellschaft for the acquisition of a 100% stake in the Croatia-based companies ERGO Osiguranje d.d. and ERGO Životno Osiguranje d.d.

**May** In May 2018, Sava Re issued the “Solvency and financial condition report of Sava Re d.d. 2017”. The Company’s solvency ratio for 2018 was 283%. In June 2018, Sava Re published its “Sava Re Group Solvency and financial condition report 2017”. The Group’s solvency ratio for 2018 was 220%.

**May** In May 2018, the Company’s 34th general meeting of shareholders took place.

**June** In June 2018, Srečko Čebron and Jošt Dolničar were re-elected to serve on the management board for another term of office.

**June** On 8 June 2018, south-east Slovenia was hit by a hail storm, with most of the damage in and around the town of Črnomelj. Zavarovalnica Sava, the Group’s subsidiary with heavy exposure in this part of Slovenia, assured its policyholders that it would deliver on its promise to cover all insured damage. Claims relating to this event had an effect of EUR 5 million on the 2018 result.

**July** In July 2018, after its regular annual rating review, rating agency Standard & Poor’s improved Sava Re’s issuer credit and financial strength ratings to “A” with a stable outlook.

**September** In September 2018, Japan was hit by a strong typhoon. It had an effect of EUR 5 million on the net result of reinsurance operations.

**November** In November 2018, after its regular annual rating review, the rating agency AM Best upgraded the financial strength rating of Sava Re to “A” (excellent) and its issuer credit rating to “a”, both with a stable outlook.

**December** In December 2018, Nova KBM d.d., as the seller, and Sava Re d.d., as the purchaser, signed a share purchase agreement for the sale and purchase of two business shares in KBM Infond, družba za upravljanje d.o.o., jointly representing 77% of registered share capital of the company. The transaction’s completion depends on the satisfaction of certain suspensive conditions, such as obtaining the approval of the relevant regulators.

**2018** Sava Re has, along with some other investors whose qualified bank credit has been terminated, proposed some concrete amendments to the draft “Act on judicial relief granted to holders of qualified bank credit”. They emphasised that the draft act did not eliminate the unconstitutionality nor did it fully comply with the requirements of the Constitutional Court. They reiterated that the cancellation of junior bonds was without merit and wrong. By the time this report was finalised, the law had not been passed.

## 2.3 Significant events after the reporting date

On 27 February 2019, Zavarovalnica Sava satisfied all suspensive conditions and became sole owner of the companies ERGO Osiguranje d.d. and ERGO Životno Osiguranje d.d.

**“A”**

**Improved “A” level credit rating**

## 2.4 Sava Re rating profile

Sava Re is rated by two rating agencies, Standard & Poor’s and AM Best.

**Financial strength rating of Sava Re**

| Agency | Rating[3] | Outlook | Latest review |
|---|---|---|---|
| Standard & Poor's | A | stable | July 2018: improved rating |
| A.M. Best | A | stable | November 2018: improved rating |

Both credit rating agencies that regularly issue ratings on Sava Re have improved their financial strength ratings on Sava Re in 2018. The improved rating reflected a strong capital position over a longer period both under the rating agency’s model and Solvency II, which was further supported by a stable dividend policy. The rating also reflects the Group’s solid market position and operating profitability. Furthermore, both agencies assessed the completed acquisitions as positive.

[3] Credit rating agency Standard & Poor’s uses the following scale for assessing financial strength: AAA (extremely strong), AA (very strong), A (strong), BBB (adequate), BB (less vulnerable), B (more vulnerable), CCC (currently vulnerable), CC (highly vulnerable), R (under regulatory supervision), SD (selectively defaulted), D (defaulted), NR (not rated). Plus (+) or minus (-) following the credit rating from AA to CCC indicates the relative ranking within the major credit categories.
AM Best uses the following categories to assess financial strength: A++, A+ (superior), A, A- (excellent), B++, B+ (Good), B, B- (fair), C++, C+ (marginal), C, C- (weak), D (poor), E (under regulatory supervision), F (in liquidation), S (suspended).

## 2.5 Profile of the Sava Re Group[4]

Sava Re, the operating holding company of the Group, transacts reinsurance business. The insurance part of the Group is composed of seven insurers based in Slovenia and in the countries of the Adria region: the composite insurer Zavarovalnica Sava, the non-life insurers Sava Neživotno Osiguranje (SRB), Sava osiguruvanje (MKD), Illyria and Sava Osiguranje (MNE), and the two life insurers Sava Životno Osiguranje (SRB) and Illyria Life. In addition to the above (re)insurers, the Group consists of:

- Sava Pokojninska: Slovenia-based pension company wholly-owned by Sava Re;
- Illyria Hospital: wholly-owned subsidiary based in Kosovo, which owns some property but currently does not transact any business;
- TBS Team 24: Slovenia-based company providing assistance services relating to motor, health and homeowners insurance; 75% owned by Sava Re;
- Sava Penzisko Društvo: pension fund manager based in North Macedonia managing second- and third-pillar pension funds; wholly owned by Sava Re;
- ZTSR: associate company offering market research services;
- G2I: associate company marketing on-line motor polices;
- Sava Terra: subsidiary renting out property and managing own and leased property.

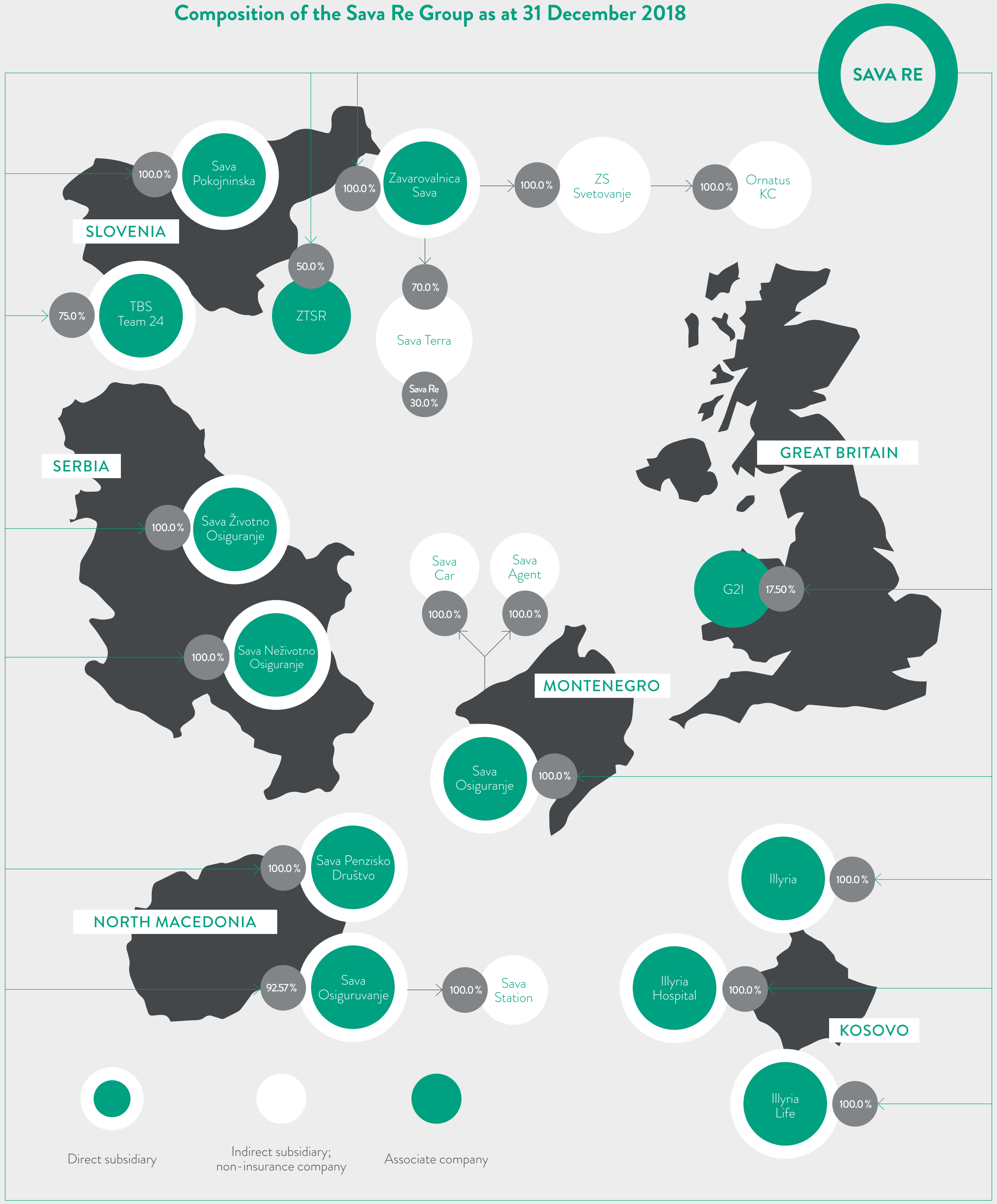
**3 acquisitions**

Successful completion of three acquisitions

[4] GRI 102-2, 102-45

## 2.6 Composition of the Sava Re Group[5]

### Composition of the Sava Re Group as at 31 December 2018




### Company names of Sava Re Group members

| | Official long name | Short name in this document |
|---|---|---|
| | Sava Re Group | Sava Re Group |
| 1 | Pozavarovalnica Sava, d.d. / Sava Reinsurance Company, d.d. | Sava Re |
| 2 | ZAVAROVALNICA SAVA, zavarovalna družba, d.d. | Zavarovalnica Sava |
| | | Zavarovalnica Sava, Slovenian part (in tables) |
| | SAVA OSIGURANJE d.d. – Croatian branch office | Zavarovalnica Sava, Croatian part (in tables) |
| 3 | Sava pokojninska družba, d.d. | Sava Pokojninska |
| 4 | SAVA NEŽIVOTNO OSIGURANJE AKCIONARSKO DRUŠTVO ZA OSIGURANJE BEOGRAD | Sava Neživotno Osiguranje (SRB) |
| 5 | "SAVA ŽIVOTNO OSIGURANJE" akcionarsko društvo za osiguranje, Beograd | Sava Životno Osiguranje (SRB) |
| 6 | KOMPANIA E SIGURIMEVE "ILLYRIA" SH.A. | Illyria |
| 7 | Kompania për Sigurimin e Jetës "Illyria – Life" SH.A. | Illyria Life |
| 8 | AKCIONARSKO DRUŠTVO SAVA OSIGURANJE PODGORICA | Sava Osiguranje (MNE) |
| 9 | SAVA osiguruvanje a.d. Skopje | Sava Osiguruvanje (MKD) |
| 10 | "Illyria Hospital" SH.P.K. | Illyria Hospital |
| 11 | Društvo sa ograničenom odgovornošću – SAVA CAR – Podgorica | Sava Car |
| 12 | ZS Svetovanje, storitve zavarovalnega zastopanja, d.o.o. | ZM Svetovanje |
| 13 | ORNATUS KLICNI CENTER, podjetje za posredovanje telefonskih klicov, d.o.o. | Ornatus KC |
| 14 | DRUŠTVO ZA ZASTUPANJE U OSIGURANJU "SAVA AGENT" D.O.O. – Podgorica | Sava Agent |
| 15 | Društvo za tehničko ispituvanje i analiza na motorni vozila SAVA STEJŠN DOOEL Skopje | Sava Station |
| 16 | TBS TEAM 24 podjetje za storitvene dejavnosti in trgovino d.o.o. | TBS Team 24 |
| 17 | SAVA PENSION FUND JSC Skopje (SAVA PENZISKO DRUSTVO AD Skopje) | Sava Penzisko Društvo |
| 18 | ZTSR, raziskovanje trga, d.o.o. | ZTSR |
| 19 | Sava Terra, družba za upravljanje z nepremičninami d.o.o. | Sava Terra |
| 20 | G2I Ltd | G2I |

5 GRI 102-4

## 2.7 General information on Group companies as at 31 December 2018[6]

**As at 31 December 2018, the Sava Re Group had the following members:**

| Name | Sava Re | Zavarovalnica Sava | Sava Pokojninska |
|---|---|---|---|
| Registered office | Dunajska cesta 56, 1001 Ljubljana, Slovenia | Cankarjeva 3, 2507 Maribor, Slovenia | Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia |
| ID number | 5063825 | 5063400 | 1550411 |
| Business activity | reinsurer | composite insurer | pension company |
| Share capital | EUR 71,856,376 | EUR 68,417,377 | EUR 6,301,109 |
| Book value of equity interest | | EUR 68,417,377 | EUR 6,301,109 |
| Equity interests (voting rights) held by Group members | | Sava Re: 100.0% | Sava Re: 100.0% |
| Governing bodies | **management board** | **management board** | **management board** |
| | Marko Jazbec (chair), Jošt Dolničar, Srečko Čebron, Polona Pirš Zupančič | David Kastelic (chair), Primož Močivnik, Rok Moljk, Robert Ciglarič | Lojze Grobelnik (chair), Igor Pšunder |
| | **supervisory board** | **supervisory board** | **supervisory board** |
| | Mateja Lovšin Herič (chair), Keith William Morris, Andrej Kren, Davor Ivan Gjivoje, Mateja Živec, Andrej Gorazd Kunstek | Jošt Dolničar (chair), Janez Komelj, Polona Pirš Zupančič, Pavel Gojkovič, Aleš Perko, Branko Beranič | Jošt Dolničar (chair), Katrca Rangus, Rok Moljk, Jure Korent, Andrej Rihter, Irena Šela, Robert Senica |
| Supervisory body | Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana | Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana | Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana |

| Name | Sava Neživotno Osiguranje (SRB) | Sava Životno Osiguranje (SRB) | Illyria |
|---|---|---|---|
| Registered office | Bulevar vojvode Mišića 51, 11040 Beograd, Serbia | Bulevar vojvode Mišića 51, 11040 Beograd, Serbia | Sheshi Nëna Terezë 33, 10000 Priština, Kosovo |
| ID number | 17407813 | 20482443 | 70152892 |
| Business activity | non-life insurer | life insurer | non-life insurer |
| Share capital | EUR 10,570,373 | EUR 4,496,544 | EUR 5,428,040 |
| Book value of equity interest | EUR 10,570,373 | EUR 4,496,544 | EUR 5,428,040 |
| Equity interests (voting rights) held by Group members | Sava Re: 100.0% | Sava Re: 100.0% | Sava Re: 100.0% |
| Governing bodies | **management board** | **management board** | **managing director** |
| | Milorad Bosnić (chair), Aleksandar Ašanin | Bojan Mijailović (chair), Zdravko Jojić | Gianni Sokolič |
| | **supervisory board** | **supervisory board** | **board of directors** |
| | Jošt Dolničar (chair), Nebojša Šćekić, Josif Jusković | Polona Pirš Zupančič (chair), Pavel Gojkovič, Milan Jelićić | Primož Močivnik (chair), Rok Moljk, Robert Sraka, Ramis Ahmetaj, Milan Viršek |
| Supervisory body | Narodna banka Srbije , Nemanjina 17, 11000 Belgrade, Serbia | Narodna banka Srbije, Nemanjina 17, 11000 Belgrade, Serbia | Centralna Banka Kosova, Garibaldi str. no.33, Priština, Kosovo |

[6] GRI 102-2, 102-6, 102-7, 102-18

| Name | Illyria Life | Sava Osiguruvanje (MKD) | Sava Osiguranje (MNE) |
|---|---|---|---|
| Registered office | Sheshi Nëna Terezë 33, 10000 Priština, Kosovo | Zagrebska br. 28 A, 1000 Skopje, North Macedonia | PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro |
| ID number | 70520893 | 4778529 | 02303388 |
| Business activity | life insurer | non-life insurer | non-life insurer |
| Share capital | EUR 3,285,893 | EUR 3,820,077 | EUR 4,033,303 |
| Book value of equity interest | EUR 3,285,893 | EUR 3,536,245 | EUR 4,033,303 |
| Equity interests (voting rights) held by Group members | Sava Re: 100.0% | Sava Re: 92.57% | Sava Re: 100.0% |
| Governing bodies | **managing director** | **board of directors** | **board of directors** |
| | Albin Podvorica | executive directors: Sašo Drakulovski (managing director), Ilo Ristovski, Melita Gugelovska, | executive director: Nebojša Šćekić |
| | **board of directors** | **non-executive directors** | **non-executive directors** |
| | Primož Močivnik (chair), Robert Sraka, Gianni Sokolič, Rok Moljk, Milan Viršek | Rok Moljk (chair), Polona Pirš Zupančič, Milan Viršek, Janez Jelnikar | Milan Viršek (chair), Jošt Dolničar, Edita Rituper |
| Supervisory body | Centralna Banka Kosova, Garibaldi str. no.33, Priština, Kosovo | Agencija za supervizija na osiguruvanje na Republika Makedonija, Ulica Vasil Glavinov br. 2, TCC Plaza kat 2, 1000 Skopje, North Macedonia | Agencija za nadzor osiguranja Crna Gora, Ul. Moskovska bb, 81000 Podgorica, Montenegro |

| Name | Illyria Hospital | Sava Car | Sava Agent |
|---|---|---|---|
| Registered office | Sheshi Nëna Terezë 33, 10000 Priština, Kosovo | Dr Vukašina Markovića 184, 81000 Podgorica, Montenegro | PC Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro |
| ID number | 70587513 | 02806380 | 02699893 |
| Business activity | currently none | technical testing and analysis | insurance agent & broker services |
| Share capital | EUR 1,800,000 | EUR 485,000 | EUR 10,000 |
| Book value of equity interest | EUR 1,800,000 | EUR 485,000 | EUR 10,000 |
| Equity interests (voting rights) held by Group members | Sava Re: 100.0% | Sava Osiguranje (MNE): 100.0% | Sava Osiguranje (MNE): 100.0% |
| Governing bodies | **director** | **executive director** | **executive director** |
| | Ilirijana Dželadini | Radenko Damjanović | Snežana Milović |
| | | | |
| | | | |
| Supervisory body | / | Ministry of Internal Affairs, Bulevar Svetog Petra Cetinjskog 22, 81000 Podgorica, Montenegro | Agencija za nadzor osiguranja Crna Gora, Ul. Moskovska bb, 81000 Podgorica, Montenegro |

| Name | Sava Station | ZS Svetovanje | Sava Penzisko Društvo |
|---|---|---|---|
| Registered office | Zagrebska br. 28 A, 1000 Skopje, North Macedonia | Karantanska ulica 35, 2000 Maribor, Slovenia | Majka Tereza 1, 1000 Skopje, North Macedonia |
| ID number | 7005350 | 2154170000 | 5989434 |
| Business activity | technical testing and analysis | insurance agency | pension fund mangement |
| Share capital | EUR 199,821 | EUR 327,263 | EUR 2,110,791 |
| Book value of equity interest | EUR 199,821 | EUR 327,263 | EUR 2,110,791 |
| Equity interests (voting rights) held by Group members | Sava Osiguruvanje (MKD): 100.0% | Zavarovalnica Sava: 100.0% | Sava Re: 100.0% |
| Governing bodies | **managing director** | **managing director** | **management board** |
| | Ilija Nikolovski | Aljaž Kos | Davor Vukadinović (chair), Mira Shekutkovska |
| | | | **supervisory board** |
| | | | Jure Korent (chari), Pavel Gojkovič, Mojca Gornjak, Goce Hristov |
| Supervisory body | Ministry of Internal Affairs of the Republic of North Macedonia | Agencija za zavarovalni nadzor, Trg republike 3, 1000 Ljubljana | Agencija za supervizijo kapitalsko financiranega pokojninskega zavarovanja Mapas |

| Name | TBS Team 24 | ZTSR | G2I |
|---|---|---|---|
| Registered office | Ljubljanska ulica 42, 2000 Maribor, Slovenia | Dunajska cesta 22, 1000 Ljubljana, Slovenia | Bailey House, 4-10 Barttelot Road, Horsham, West Sussex, RH12 1DQ |
| ID number | 5946948000 | 8281262000 | 10735938 |
| Business activity | organisation of assistance services and customer relations | market research | insurance |
| Share capital | EUR 8,902 | EUR 250,000 | EUR 121,300 |
| Book value of equity interest | EUR 6,677 | EUR 125,000 | EUR 21,228 |
| Equity interests (voting rights) held by Group members | Sava Re: 75.0% | Sava Re: 50.0% | Sava Re: 17.5% (25.0%) |
| Governing bodies | **managing director** | **managing director** | **board of directors** |
| | Edvard Hojnik | Aleš Aberšek | Graham Smith (chair and non-executive director), Jošt Dolničar (non-executive director), Robert Marjoram (executive director), Lisa Dunne (executive director), Nicholas Tsimekis (executive director), Justin Davis (executive director) |
| | **holder of procuration:** | **supervisory board** | |
| | Aleksandra Tkalčič | Jošt Dolničar (chair), Blaž Kmetec, Andreja Cedilnik, Miha Grilec | |
| Supervisory body | / | / | Financial conduct authority, 12 Endeavour Square, London E20 1JN |

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| Name | Sava Terra |
|---|---|
| Registered office | Jarška cesta 10a, 1000 Ljubljana |
| Company ID number | 6383785 |
| Business activity | renting out property and operating own and leased property |
| Share capital | EUR 7,500 |
| Book value of equity interest | EUR 2,250 |
| Equity interests (voting rights) held by Group members | Sava Re: 30.0%<br>Zavarovalnica Sava: 70% |
| Governing bodies | **managing director** |
| | Rok Saje |
| | **supervisory board** |
| | Andreja Rahne (chair), Hermina Kastelec (deputy chair), Mojca Marinič |
| Supervisory body | / |

The senior management of all Sava Re Group members is local, except at Illyria.[7]

## 2.8 Changes to the organisation[8]

In 2018, Sava Re acquired a 75% stake in TBS TEAM 24, which is a provider of assistance services relating to motor, health and homeowners insurance. The first consolidated accounts of the Sava Re Group after TBS Team 24 joined were prepared as at 31 January 2018.

In 2018, Sava Re became the sole owner of Sava Penzisko Društvo. The company manages mandatory and voluntary pension insurance funds in North Macedonia. The first consolidated accounts of the Sava Re Group after Sava Penzisko Društvo joined were prepared as at 31 March 2018.

In 2018, Sava Re acquired the Serbian-based insurer Energoprojekt Garant, which mostly writes liability business. It was first included in the consolidated accounts as at 31 March 2018. At the end of the year, Energoprojekt Garant was merged with Sava Neživotno Osiguranje (SRB).

In 2018, Zavarovalnica Sava and Sava Re jointly acquired Sava Terra to serve as a platform for investing in Sava Re Group investment property, primarily in the Slovenian market.

At year-end 2018, Sava Re acquired a 50% stake in ZTSR, a company providing market research services.

In 2018, Sava Re acquired a 17.5% stake in the UK-based start-up company G2I (Got2Insure Ltd). The company will market niche motor liability insurance through an online platform. The ownership stake entitled Sava Re to two seats on the board of directors (25% of voting rights) and some other corporate rights that exceed the rights Sava Re would be entitled to based on the ownership, which is why in the consolidated accounts the company has been treated as an associate company.

[7] GRI 202-2

[8] GRI 102-10

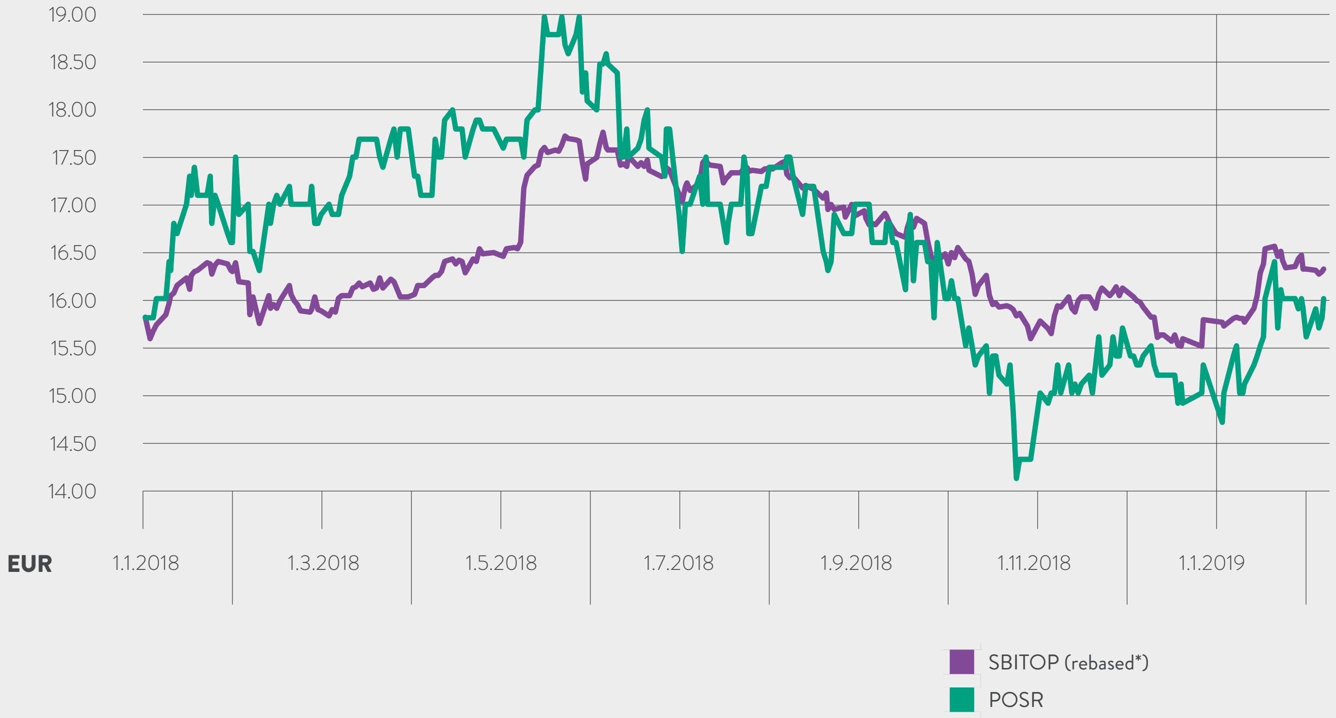
# 3 Shareholders and share trading

## 3.1 Capital market developments and impacts on the POSR share price

Global stock indexes closed 2018 mainly in the red. The European Eurostoxx index lost 12.1%, taking into account dividends, while the stock index covering European insurers dropped 6.2%. The Slovenian capital market (SBITOP) recorded a minor negative return of 0.2% (excluding dividends) in 2018; had dividends been included, the return would have been a positive one of 6.3%. The return was positive mainly because of dividend distributions.

The Sava Re POSR share lost 3.2% in 2018, but gained 1.9% if dividend payments are taken into account. In the second quarter, a dividend of EUR 0.80 per share was distributed. The share's annual trade volumeon the Ljubljana Stock Exchange was EUR 9.8 million (2017: EUR 14.4 million). The share's average daily turnover in 2018 was EUR 40,167 (2017: EUR 58,309).

**Movement in the POSR share price in 2018 compared to the SBITOP stock index**




* The SBITOP index has been rebased to the same level as the POSR share price (1 January 2018: EUR 15.80), while below is a presentation of the stock index growth rate in real terms.

The share price was EUR 15.30 and EUR 15.80 as at 31 December 2018 and 31 December 2017, respectively, representing a 3.2% drop in the period.

## 3.2 General information on the share

### Basic details about the POSR share

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Share capital (EUR)** | 71,856,376 | 71,856,376 |
| **No. of shares** | 17,219,662 | 17,219,662 |
| **Ticker symbol** | POSR | POSR |
| **No. of shareholders** | 4,073 | 4,061 |
| **Type of share** | ordinary | |
| **Listing** | Ljubljana Stock Exchange, prime market | |
| **Number of own shares** | 1,721,966 | 1,721,966 |
| **Consolidated net earnings per share (EUR)** | 2.76 | 2.00 |
| **Consolidated book value per share (EUR)** | 21.95 | 20.40 |
| **Share price at end of period (EUR)** | 15.30 | 15.80 |
| | **1–12/2018** | **1–12/2017** |
| **Average share price in reporting period (EUR)** | 16.77 | 15.86 |
| **Minimum share price in reporting period (EUR)** | 14.10 | 13.35 |
| **Maximum share price in reporting period (EUR)** | 19.00 | 17.20 |
| **Trade volume in reporting period (EUR)** | 9,840,821 | 14,384,835 |
| **Average daily turnover in the share (EUR)** | 40,167 | 58,309 |

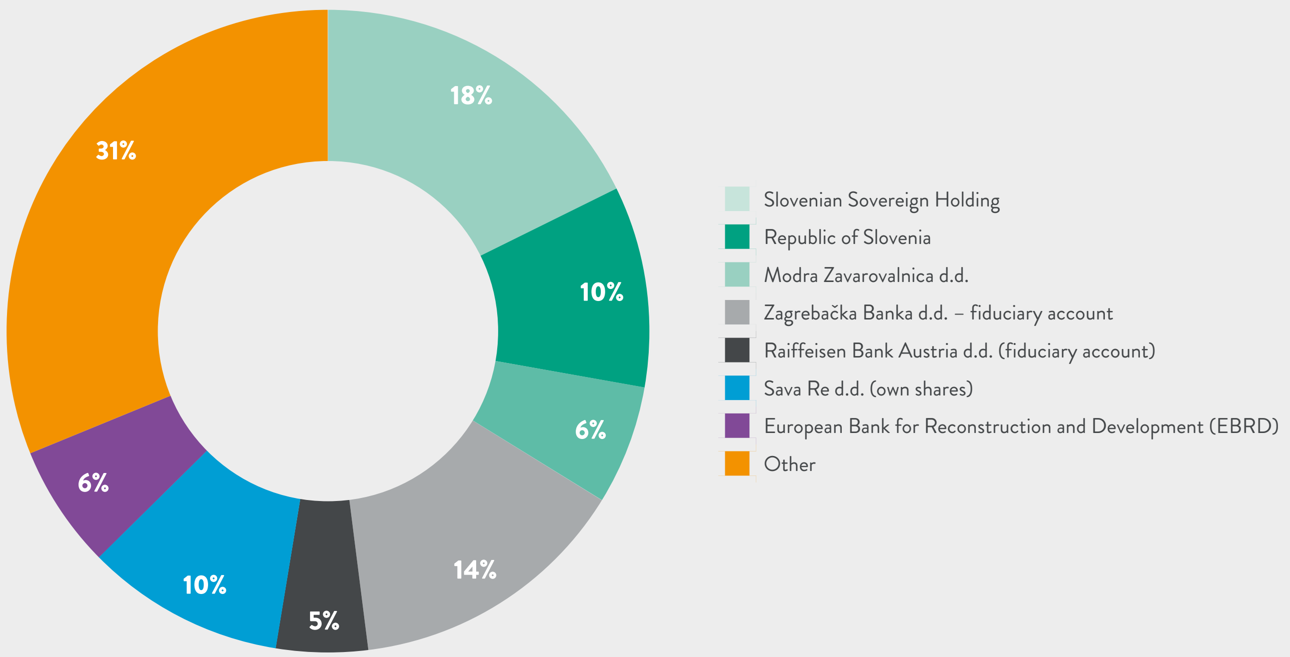
### Shareholder structure of Sava Re as at 31 December 2018[9]

| Type of investor | Domestic investor | International investor |
|---|---|---|
| **Insurers and pension companies** | 19.2% | 0.0% |
| **Other financial institutions** | 17.9% | 0.4% |
| **Government** | 10.1% | 0.0% |
| **Natural persons** | 9.3% | 0.1% |
| **Banks** | 3.9% | 29.3% |
| **Investment funds and mutual funds** | 2.9% | 3.5% |
| **Other commercial companies** | 2.2% | 1.2% |
| **Total** | **65.5%** | **34.5%** |

The other financial institutions item includes the Slovenian Sovereign Holding with a stake of 17.7%.
On 2 June 2016, Sava Re received a notice from Adris grupa d.d., Vladimira Nazora 1, 52210 Rovinj, Croatia, advising Sava Re of a change in major holdings in Sava Re. On 2 June 2016, Adris grupa, including its subsidiaries with fiduciary accounts, held 3,278,049 POSR shares, representing 19.04% and 21.15% of issued and outstanding shares, respectively.

As at 31 December 2018, 65.5% of shareholders were Slovenian and 34.5% foreign.

### Top ten shareholders of Sava Re as at 31 December 2018[10]




A list of the ten largest shareholders is given in section 5.6 "Details pursuant to article 70(6) of the Companies Act".

[9] Source: Central securities register KDD d.d. and own calculations.
[10] GRI 201-4

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up 38%

Consolidated net profit per share up

## Own shares

In the period from 1 January 2018 to 31 December 2018, Sava Re did not repurchase any own shares. As at 31 December 2018, it held 1,721,966 own shares, representing 10% (less one share) of all issued shares.

## Dividends

In June 2018, the Company paid dividends as per resolutions adopted by the 34th annual general meeting.

The Company had no conditional equity.

### Details on dividends

| (EUR) | For 2013 | For 2014 | For 2015 | For 2016 | For 2017 |
|---|---|---|---|---|---|
| Dividend payouts | 4,386,985 | 9,065,978 | 12,398,157 | 12,398,157 | 12,398,157 |
| Dividend/share | 0.26 | 0.55 | ordinary: 0.65<br>special: 0.15 | 0,80 | 0,80 |
| Dividend yield | 2.0% | 3.8% | 5.8% | 5.0% | 4.8% |

up 7.6%

Consolidated book value of share

# 3.3 Responsibility to investors[11]

Our investors, i.e. our shareholders, are important stakeholders, as they have already demonstrated their trust in the Company by buying the Company's shares. As a Ljubljana Stock Exchange first listing company, we respect the principle of equal treatment and public information. In our communications, we follow recommendations for the uniform informing of all shareholders, and through public announcements (through the Ljubljana Stock Exchange system, SEOnet), we enable the simultaneous and transparent provision of information in accordance with the financial calendar. In so doing, we build trust among our shareholders and other potential investors in the Company and its POSR share.

In addition, Sava Re communicates in compliance with the Slovenian Financial Instruments Market Act (ZTFI-1), the Company's Act (ZGD-1), the mentioned recommendations of the Ljubljana Stock Exchange to listed companies, the Corporate Governance Code for Listed Companies, the rules of procedure of the supervisory board and the Company's internal rules for investor relations. The annual report provides all disclosures required by law and additional financial and non-financial disclosures that the Company considers valuable to its stakeholders.

Following the release of its audited consolidated results, the Company's management visits its largest shareholders at least annually, informing them of major impacts on the Company and the Group, its short-term plans and strategy. The Company devotes particular attention to small investors (retail investors), who are addressed through direct mail at least once a year and invited to the annual general meeting. The Company encourages all its shareholders to participate in the general meeting. We strengthen our brand among international institutional investors through presentations at investment conferences and individual visits, maintaining a focus on long-term investors. In 2018, we attended four conferences for investors and analysts in Slovenia and abroad, and participated in four webcasts organised by the Ljubljana Stock Exchange. All told, more than 30 one-on-one and group meetings with investors and analysts were conducted.

Financial analysts have a significant impact on the opinion of the financial and other interested communities regarding the value of the Company's shares. The Company strives to ensure long-term coverage by at least two relevant domestic or foreign analysts.

Timely and consistent information for investors, shareholders and other representatives of the financial public is provided on our official website, at www.sava-re.si, with a sub-page entitled For Investors containing all relevant information regarding fluctuations in the value of POSR shares, key indicators and dividends, financial reports and analyses, financial calendar and announcements of events. In the case of any additional questions, the investor relations email address is as follows: ir@sava-re.si.

[11] GRI 102-42, 102-43

# 4 Report of the supervisory board

**The supervisory board of Sava Re d.d. (hereinafter: the "Company" or "Sava Re") has prepared the following report in accordance with article 282 of the Slovenian Companies Act.**

In 2018 the supervisory board periodically monitored the Company's operations and oversaw its management in a responsible manner. It periodically examined reports on various aspects of the business, passed appropriate resolutions and monitored their implementation. Individual issues were addressed in detail by the relevant supervisory board committees before deliberation in supervisory board meetings, and on the basis of their findings, the supervisory board adopted appropriate resolutions and recommendations.

The supervisory board operated within the scope of its powers and responsibilities under the law, the Company's articles of association and its rules of procedure.

## COMPOSITION OF THE SUPERVISORY BOARD

The Company's supervisory board operated as a six-member body in 2018.

In its session of 7 March 2017, the general meeting elected Davor Ivan Gjivoje as a supervisory board member for the next four-year term of office, starting on 7 March 2017. In addition, the general meeting elected, to four-year terms of office, the following persons as new members of the supervisory board: Mateja Lovšin Herič, Keith William Morris and Andrej Kren, whose terms of office started on 16 July 2017.

The members of the supervisory board serving in this 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 members elected, in their constitutive meeting, Mateja Lovšin Herič as chair of the supervisory board and Keith William Morris as deputy chair.

The size and composition of the supervisory board allow for effective discussion and the adoption of sound resolutions based on the members' broad range of expertise and experience.

# OPERATION OF THE SUPERVISORY BOARD

In its operation and decision-making, the supervisory board is guided by the goals of both the Company and the Sava Re Group as a whole. During sessions, members express their opinions and positions, seeking to reconcile any differences in order to adopt resolutions unanimously.

The supervisory board notes that all reports prepared by the management board for the supervisory board's own use and that of its committees were appropriate for use as part of a thorough review of issues, and comply with both the relevant laws and internal regulations. Meeting materials were provided in a timely manner, allowing members sufficient time to prepare themselves for the consideration of agenda items. The Company's professional staff assisted in carrying out sessions and organised other supporting activities.

The supervisory board held 10 sessions in 2018, of which one was a correspondence session. All members attended sessions regularly. Supervisory board members who are unable to attend in person for good reason may vote in writing or participate remotely, through video conferencing and similar. Discussions were also joined by the management board members and the supervisory board secretary, while other professional staff also assisted in certain agenda items.

In the course of the year, the supervisory board discussed relevant aspects of the operations and activities of the Company and the Sava Re Group within its powers under the law and the articles of association.

Below we outline the major issues to which the supervisory board members dedicated special attention in 2018:

## Short- and long-term plans of the Company and the Sava Re Group

In late 2018, the supervisory board considered and approved the "Business policy and financial plan of the Sava Re Group and Sava Re d.d. for 2019".

## Financial reports – annual report

The supervisory board reviewed the unaudited financial statements of the Sava Re Group and Sava Re d.d. 2017. In 2018, it adopted the Audited annual report of the Sava Re Group and Sava Re d.d. for 2017, including the auditor's report and opinion to the 2017 annual report, and the supervisory board's own report on its activities in 2017. The annual report, including the auditor's opinion, was also presented to the general meeting.

## Financial reports – interim reports

The supervisory board also periodically reviewed further financial reports in 2018, i.e. unaudited financial reports of the Sava Re Group with the financial statements of Sava Re d.d. for the periods January–March 2018, January–June 2018 and January–September 2018.

## Asset management

The supervisory board monitored asset management periodically and as part of reviewing the annual report and interim financial reports of the Company and the Group.

## Reinsurance operations and claims development

The supervisory board was briefed on the Company's reinsurance programme for the current period. Throughout 2018, the board was regularly updated by the management board on major loss events in domestic as well as global markets, and on the potential claims that could impact the Company.

## Supervision of subsidiaries

In addition to overseeing the operations of Sava Re as the parent of the Sava Re Group, the supervisory board, to the extent permitted by law, actively monitored the performance of the Sava Re Group subsidiaries.

Furthermore, the supervisory board received periodic updates on the progress towards the long-term objectives of the merger of the Group's EU-based insurance companies.

## Mergers and acquisitions

The supervisory board has, to the extent permitted by law, received regular updates from the management board on opportunities and potential merger and acquisition targets in the region, as well as of intended submissions of offers.

## Risk management system

### Risk management

The supervisory board periodically monitored risk management as part of reviewing the annual report and interim financial reports of the Company and the Group.

It took note of the risk report for the last quarter of 2017 and of the first, second and third quarter risk reports for 2018. Furthermore, it considered the own risk and solvency assessment (ORSA) reports of the Company and that of the Sava Re Group for 2018, and gave its consent thereto.

It was informed of the Solvency II capital adequacy calculation as at 31 December 2017, and the solvency and financial condition report for the Company and the Group.

As the supervisory board believes that identifying and managing risk is an essential part of good governance, it set up a professional risk committee to closely monitor risk developments and offer advice and support to the supervisory board on risk-related issues.

### Actuarial affairs

The supervisory board considered the actuarial function report of Sava Re d.d. for 2018 and took note of the Sava Re Group non-life actuarial function report for 2017 and the Sava Re Group life actuarial function report for 2017.

### Compliance monitoring

In 2018, the supervisory board of Sava Re took note of the compliance function report for 2017 and the annual work plan of the compliance department for 2018. It also took note of the half-yearly report on the activities of the compliance function for the period 1 January to 30 June 2018.

### Internal audit

In 2018, the supervisory board oversaw the activities of the Company's internal audit department in accordance with its statutory powers. In addition, it considered the internal audit report for the period 31 October – 31 December 2017, and the annual report on internal auditing for 2017 and drew up an opinion on the annual report, which was presented to the general meeting of shareholders. It also considered quarterly internal audit reports for the first, second and third quarters of 2018. All internal audit reports of the Company were presented by the director of internal audit.

The supervisory board considers all reports prepared by internal audit to have been independent and objective, and that the internal auditor's recommendations and conclusions are taken into account by the management board. It notes that internal audit reviews revealed no material irregularities in the Company's operations. The supervisory board also notes that the internal audit department monitors the development of the internal audit departments of Group subsidiaries on an ongoing basis, providing them with the required professional assistance. In addition, it also monitors the operations of these companies but found no major irregularities.

The supervisory board took note of the reorganisation of the audit function at the Sava Re Group level. Sava Re entered into outsourcing agreements with Zavarovalnica Sava and Sava Pokojninska Družba, under which the internal audit function, which is a key function, was transferred for an indefinite period to the controlling company Sava Re effective as of 1 February 2018.

## Calling and holding of general meeting of shareholders

The supervisory board, together with the management board, called the Company's general meeting of shareholders once in 2018.

## Preparing the election proposal for the general meeting

Based on a proposal by the audit committee, which conducted the selection process, in late 2018 the supervisory board drafted a proposal for the general meeting on the appointment of an audit firm for the next three-year period. The general meeting will consider the election proposal in its regular annual meeting in 2019.

## Solvency II

In 2018, the supervisory board reviewed selected Solvency II policies and gave its consent to the proposed amendments.

## Review of Sava Re operations by the Insurance Supervision Agency

The supervisory board oversaw the management board's report on the correspondence with the Insurance Supervision Agency relating to the Agency's review of Sava Re operations.

## Strengthening supervisory board best practices

In accordance with best practices, supervisory board members, upon taking office and then annually, complete questionnaires, including a statement on the (non-)existence of conflicts of interest. These statements are posted on the Company's website. All supervisory board members declared themselves independent.

In accordance with good practice, the supervisory board annually assesses its composition, operation and the functioning of its individual members and the supervisory board as a whole, including cooperation with the management board.

After the first year of this term of office, the supervisors conducted a self-assessment, on the basis of which an action plan was designed to further improve the board's operation.

# OPERATION OF SUPERVISORY BOARD COMMITTEES

## AUDIT COMMITTEE

In accordance with statutory regulations, the Company's supervisory board has set up an audit committee for the in-depth examination of accounting, financial and audit issues.

### Composition of the audit committee

After the supervisory board was formed for a new term of office, an audit committee was set up in August 2017, consisting of: Andrej Kren (chair), Mateja Lovšin Herič (deputy chair), Ignac Dolenšek (independent external member with relevant accounting and auditing qualifications). Their terms of office are limited by the term of office of the supervisory board.

### Role of the audit committee

The role of the audit committee is set out in detail in section 5.3.3 "Corporate governance statement / Supervisory board committees / Terms of reference of the audit committee".

### Operation of the audit committee in 2018

The audit committee of the supervisory board met nine times in 2018. Attendance of committee members was regular and full in eight meetings.

The chief tasks carried out by the audit committee in 2018 are set out below.

- It oversaw the integrity of financial information: The committee was largely focused on overseeing financial reporting processes. In this respect, it gave recommendations and suggestions regarding materials for supervisory board meetings to ensure compliance with relevant professional standards and observing appropriate reporting principles, such as completeness, transparency and consistency of reporting.
- It monitored the efficiency and effectiveness of internal controls and internal audit activities based on annual and quarterly internal audit reports, and assessed the adequacy of the internal audit work plan. Furthermore, it considered the proposed amendments to the "Internal audit policy of the Sava Re Group and Sava Re d.d." subsequently approved by the supervisory board. It carried out a separate meeting with the director of the internal audit department.
- It monitored the statutory audit of the separate and consolidated financial statements. In 2018, the audit committee met with the selected external auditor several times, monitored the auditing of the separate and consolidated annual financial statements and, among other things, participated in determining audit focus areas. It considered the proposed annex to the agreement with the external auditor. Based on management board reports on non-audit services provided by audit firms, the audit committee assessed the independence of the auditor of the Company's annual accounts.
- After a three-year period (i.e. after six consecutive years of using the audit services of one firm), it was decided that the Company should change its auditor. Supported by an internal committee, the audit committee conducted a candidate selection process by calling for bids and drafted a proposal for the supervisory board as to which auditing firm would be proposed to the Sava Re general meeting for the auditing of the financial statements for the financial years 2019–2021.
- It also performed other activities: It took note of management board progress reports, in particular the one on the project for implementing the new international accounting standards IFRS 9 and 17. In addition, it periodically took note of management board reports and its correspondence with the Insurance Supervision Agency and other supervisory authorities.
- With a view to continued quality improvement, the audit committee performed a self-assessment of its efficiency, on the basis of which an action plan was designed to further improve the committee's operation.

The chair of the audit committee reported regularly to the supervisory board on its work and positions.

The supervisory board is of the opinion that the audit committee considered all relevant issues within its terms of reference and offered the supervisory board professional assistance by providing opinions and preparing proposals.

The supervisory board further believes that the composition of the audit committee is appropriate and that the members have such professional and personal qualities that ensure quality and independence of operation.

Furthermore, the supervisory board is of the opinion that the audit committee was provided with the necessary support to carry out its work.

## RISK COMMITTEE

Once the supervisory board was formed for a new term of office, a risk committee was set up in August 2017, consisting of: Keith William Morris (chair), Davor Ivan Gjivoje (member), Slaven Mićković (member and deputy chair, independent external member of the risk committee). The term of office of individual committee members is limited by the term of office of the supervisory board.

The risk committee performs tasks in accordance with the resolutions of the supervisory board, the Solvency II Directive, its rules of procedure, the rules of procedure of the supervisory board, the Insurance Act, the "Corporate governance code for listed companies" and other applicable regulations relating to risk management.

### Operation of the risk committee in 2018

The risk committee met five times in 2018.

The committee was focused on monitoring the risk management system, chiefly in terms of its reliability, effectiveness and efficiency. It assessed the adequacy of the risk management system in place. It examined in detail the risk management reports that the committee was submitted or that the supervisory board approves.

In addition, it considered the report on capital allocation and economic profitability for the year 2017, with a closer look at the methodology. It familiarised itself with the work of the Group modelling centre. Furthermore, it considered in detail the report on cyber security risk management at the level of the Sava Re Group.

It updated its rules of procedures, which were also approved by the supervisory board.

The chair of the risk committee reported regularly to the supervisory board on its work and positions.

The supervisory board further believes that the composition of the risk committee is appropriate and that the members have such professional and personal qualities that ensure quality and independence of operation.

Furthermore, the supervisory board is of the opinion that the risk committee was provided with the necessary support to carry out its work.

## NOMINATIONS AND REMUNERATION COMMITTEE

Pursuant to the recommendations of the Corporate Governance Code for Listed Companies, the supervisory board appointed a nominations and remuneration committee. In August 2017, it was appointed as a permanent special committee of the supervisory board to draft proposals of selection criteria and candidates to serve on the management and supervisory boards and provide support to the supervisory board in other areas where conflicts of interest may arise for the members of the supervisory board.

The term of office of individual committee members is limited by the term of office of the supervisory board.

### Composition of the nominations and remuneration committee

For the new supervisory board term, the nominations and remuneration committee was set up as a four-member committee in August 2017, consisting of Mateja Lovšin Herič (chair), Keith William Morris, Davor Ivan Gjivoje and Andrej Kren.

### Operation of the nominations and remuneration committee in 2018

The nominations and remuneration committee of the supervisory board met three times in 2018.

The nominations and remuneration committee conducted a performance assessment of the management board in 2017, based on which the supervisory board decided on a bonus relating to the performance of the Sava Re Group.

In early 2018, the committee considered in detail the proposed new methodology for variable remuneration of the management board and exhaustively examined specific quantitative and qualitative criteria for the performance assessment of the management board in 2018, which were subsequently approved by the supervisory board.

It considered in detail the management board's report on the succession policy for the members of management of Sava Re Group companies.

At the close of the year, the nominations and remuneration committee examined and proposed that the supervisory board approve the selected performance indicators and personal goals of the chairman and each member of the management board for 2019.

The chair of the nominations and remuneration committee reported regularly on its work and positions in meetings of the supervisory board, which also reviewed the meeting minutes of the nominations and remuneration committee.

## FIT & PROPER COMMITTEE

In line with the law and the Company's fit and proper policy, the management and supervisory boards appointed a special three-member fit and proper committee for the fit and proper assessment of the management and supervisory boards, including all its committees and the members of these bodies.

### Composition of the fit & proper committee

Starting with the new term of the supervisory board in August 2017, the fit and proper committee was set up as follows: Mateja Živec (chair), Keith William Morris (member), Nika Matjan (external member). Andrej Kren was appointed as additional alternate member in case the other committee members who are also supervisory board members are to undergo fit and proper assessments and in case of the absence of any member. In March 2018, Rok Saje was appointed as new external member of the fit and proper committee in place of Nika Matjan.

The term of office of individual committee members is limited by the term of office of the supervisory board.

### Operation of the fit & proper committee in 2018

The fit & proper committee did not meet in 2018.

## CONCLUDING FINDINGS

The supervisory board assesses that Sava Re performed well in 2018. This assessment of the supervisory board is also based on the report of the independent auditor on the financial statements of Sava Re d.d and the Sava Re Group for 2018, and those of key function holders of the Company's risk management system.

In 2019, the supervisory board will pay special attention to considering the course to be taken in the new strategic period. The supervisory board will be offering the management board, within its means and powers, its full support.

# ANNUAL REPORT 2018

The Company's management board submitted the Audited annual report of the Sava Re Group and Sava Re d.d. for 2018 for approval to the supervisory board. The audit committee of the supervisory board considered the unaudited and the audited annual reports of the Sava Re Group and Sava Re d.d. for 2018, including the auditor's letter to the management on the conducted pre-audit and the additional auditor's report to the audit committee on the audit of the financial statements as at 31 December 2018, prepared in accordance with article 11 of the Regulation (EU) no. 537/2014, with the committee's opinion thereon. In line with its statutory mandate, the supervisory board examined the audited annual report 2018 in its meeting of 3 April 2019.

The supervisory board noted that the annual report for 2018 was clear and transparent, as well as fully compliant with content and disclosure requirements under the Companies Act, International Accounting Standards and specific regulations (Insurance Act) and implementing regulations adopted on the basis of such regulations.

The supervisory board was also presented with the opinion of the auditor Ernst & Young Slovenija, Revizija, Poslovno Svetovanje, d.o.o., who audited the 2018 annual report of the Sava Re Group and Sava Re d.d. and carried out audit reviews in most of the Sava Re Group subsidiary companies. The supervisory board has no objections to the positive opinion of the authorised auditor Ernst & Young Slovenija, Revizija, Poslovno Svetovanje, d.o.o., who finds that the consolidated and separate financial statements give in all material respects a fair view of the financial position of the Sava Re Group and Sava Re d.d. as at 31 December 2018 and the profit or loss, comprehensive income, statement of changes in equity, and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Based on its review of the 2018 annual report, as well as on the opinion of the external auditor and that of the audit committee, the supervisory board considers that the annual report gives a true and fair view of the assets and liabilities, financial position, profit and loss, and cash flows of the Sava Re Group and Sava Re d.d.

**The supervisory board hereby approves the audited annual report of the Sava Re Group and Sava Re d.d. 2018 as submitted by the management board.**

# DETERMINATION AND PROPOSAL FOR APPROPRIATION OF THE DISTRIBUTABLE PROFIT OF SAVA RE

The supervisory board reviewed the management board's proposal on the appropriation of distributable profit as at 31 December 2018, subject to final approval by the general meeting of shareholders of Sava Re, and agrees with the management board's proposal that the following resolution on the appropriation of distributable profit be submitted for adoption to the general meeting of shareholders of Sava Re:

"The distributable profit of EUR 31,034,921.26 as at 31 December 2018 is to be appropriated as follows:

EUR 14,722,811.20 is to be appropriated for dividends. The dividend is EUR 0.95 gross per share and is to be paid, on 14 June 2019, to the shareholders entered in the shareholders' register at 13 June 2019.

The remaining distributable profit of EUR 16,312,110.06 remains unappropriated. The proposal for the appropriation of distributable profit is based on the number of own shares as at 31 December 2018. On the date of the general meeting, the number of shares entitled to dividends may change as a result of disposals of own shares. Should the number of own shares change, the general meeting of shareholders will be proposed adjusted figures for appropriation of the distributable profit, while the dividend per share of EUR 0.95 remains unchanged."

The supervisory board proposes that the general meeting grant discharge to the management board for the financial year 2018.

Mateja Lovšin Herič
Chair of the Supervisory Board of Sava Re d.d.

Ljubljana, 3 April 2019

# 5 Corporate governance statement pursuant to article 70 of the Companies Act[12]

## 5.1 Corporate governance policy

In its 66th meeting on 11 December 2017, the Sava Re management board, with the consent of the Company's supervisory board granted in its 5th meeting on 20 December 2017, adopted the "Sava Re Group governance policy" and the "Corporate governance policy of Sava Re d.d." The documents set out the main subsidiary governance principles for the Sava Re Group, governance rules for Sava Re, taking into account the goals, mission, vision and values of the Sava Re Group. The policies represent a commitment for future action.

The corporate governance policy of Sava Re is available through the Ljubljana Stock Exchange Seonet information system and from the Company's website, at www.sava-re.si.

## 5.2 Statement of compliance with the Corporate Governance Code for Listed Companies

The management and the supervisory boards of Sava Re hereby state that Sava Re operates in compliance with the Corporate Governance Code for Listed Companies as adopted on 27 October 2016 by the Ljubljana Stock Exchange and the Slovenian Directors' Association (link: http://www.ljse.si) in Slovenian and English, with individual deviations that are disclosed and explained below.

### 5.2.1 Supervisory board

**Recommendation 9.2:** The Company's supervisory board includes two employee representatives, who are employed with the Company and are hence financially connected with it.

### 5.2.2 Transparency of operations

**Recommendation 27.2:** The Company does not have in place a single document, including a communication strategy, designed to prevent situations that might lead to insider trading. However, it complies with recommendation 27.2, which is partly included in internal acts and partly implemented based on management board resolutions.

This statement of compliance with the Corporate Governance Code for Listed Companies relates to the period since the issue of the previous statement, i.e. from 28 March 2018 to 28 March 2019.

[12] GRI 102-16

## 5.3 Bodies of Sava Re[13]

### Management system

Sava Re has a two-tier management system with a management board that conducts the business and a supervisory board that oversees operations. The governing bodies – the general meeting, the supervisory and management boards – act in compliance with laws, regulations, the 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 risk management system is a key building block of the governance system. The management board ensures the effectiveness of this system. Rules of the risk management systems and own risk and solvency assessment rules are set out in detail in the Company's internal regulations.

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). They are integrated in order to strengthen the three lines-of-defence framework in the Company's control system. Rules governing individual key functions are set out in detail in the Company's internal regulations.

## 5.3.1 General meeting of shareholders

### Operation of the general meeting

The general meeting of shareholders is the supreme body of the Company through which shareholders exercise their rights in company matters. The terms of reference of the general meeting are governed by its rules of procedure, which are posted on the Company's website, at www.sava-re.si, under the About Us tab.

### Terms of reference of the general meeting

**The general meeting decides on the following:**

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

### Convening the general meeting

The general meeting of shareholders, through which the shareholders of Sava Re exercise their rights in the affairs of the Company, is convened at least once a year, and no later than in August. The general meeting may be convened in other cases as provided by law, the Company's articles of association, and whenever this is in the interest of the Company. As a rule, the general meeting is convened by the management board. In the cases stipulated by law, it may be convened by the supervisory board or shareholders.

The Company publishes general meeting notices through the SEOnet system provided by the Ljubljana Stock Exchange and through its website (www.ljse.si), on the AJPES website (www.ajpes.si) and on the Company's official website, at www.sava-re.si; in printed form in one daily newspaper as provided for in the articles of association: in Delo or Dnevnik or in the Official Gazette of the Republic of Slovenia.

### Participation in the general meeting

To attend the general meeting and exercise voting rights, shareholders must send the Company a registration form no later than by the end of the fourth day prior to the session of the general meeting, and must then be registered holders of shares listed in the central register of book-entry securities.

The conditions of participation or exercise of voting rights at the general meeting must be set out in detail in the notice of the general meeting.

### Adoption of resolutions

General meeting resolutions are adopted by a majority of votes cast (simple majority), unless a larger majority or other requirements are stipulated by law or the articles of association.

### Exercise of voting rights

Shareholders may exercise their voting rights in the general meeting based on their share of the Company's share capital. Each no-par-value share with voting rights carries one vote. Voting rights can be exercised by proxy based on a written proxy form, through financial organisations or shareholder associations.

[13] GRI 102-18

### The general meeting in 2018

The general meeting of shareholders was convened once in 2018.

In accordance with the Company's 2018 financial calendar, the 34th general meeting of shareholders was held on 29 May 2018. Among other things, the general meeting was presented the annual report for 2017, including the auditor's opinion and written report of the supervisory board to the annual report, and the annual report on internal auditing for 2017 with the opinion of the supervisory board thereto. Furthermore, the general meeting was informed of the remuneration of the members of management and supervisory bodies and of the management report on own shares. The general meeting resolved that part of the distributable profit in the amount of EUR 12,398,156.80 be appropriated for dividends, while the remaining part of the distributable profit of EUR 10,101,173.14 be left unappropriated. The general meeting granted discharge to both the supervisory and management boards.

### The general meeting in 2019

In accordance with the Company's 2019 financial calendar, the 35$^{th}$ general meeting of shareholders is scheduled to be held on 21 May 2019.

## 5.3.2 Supervisory board

### Operation of the supervisory board

The supervisory board oversees the conduct of the Company's business. In so doing, it must comply with applicable regulations, particularly the laws on companies, insurance business, the Company's articles of association and the rules of procedure of the supervisory board. In accordance with the law, the supervisory board must be convened at least on a quarterly basis, generally after the end of each quarter. If necessary, the supervisory board may meet on a more frequent basis. The terms of reference of the supervisory board are governed by its rules of procedure, which are posted on the Company's website, at www.sava-re.si, under the About Us tab.

### Terms of reference of the supervisory board

**The chief tasks of the supervisory board include:**

- to monitor and oversee the business conduct and operations of the Company, and, in the case of shortcomings or irregularities, propose to the management board measures for their remedial;
- to approve the business policy and financial plan of the Sava Re Group and Sava Re as prepared by the management board;
- to approve the development strategy of the Sava Re Group and Sava Re as prepared by the management board;
- to approve the written rules of the system of governance, risk management, compliance, internal audit, actuarial function, internal controls and outsourced business;
- to approve the granting and withdrawal of authority relating to key function holders;
- to approve the solvency and financial condition report of the Company and the Group;
- to approve the risk strategy of the Company and the Group as prepared by the management board;
- to consider 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 approve the framework annual and 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 approve the appointment, removal and rewarding 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 approving report for the general meeting;
- to review the proposal regarding 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.

CONTENTS



## The supervisory board in 2018

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 chairperson from among the board's 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 a sound and prudent overseeing of the Company's affairs. In 2018 the Company sought to align the composition of the supervisory board with the Company's policy on the diversity of the management and supervisory boards.[14]

**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 management or supervisory boards in order to ensure the working continuity of both bodies;
- 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.

Implementation of the policy on the diversity of the management and supervisory boards in 2018 is detailed below.

### Composition of the supervisory board in 2018

| Member | Title | Beginning of term of office | End 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 |

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## Employment, educational background, professional profile, gender, year of birth, beginning of term of office and memberships of third party management or supervisory bodies

### Supervisory board members representing the shareholders

**Mateja Lovšin Herič,**
**chair of the supervisory board**

**Employment: Slovenski državni holding d.d. (Slovenian Sovereign Holding)**
**Educational background:** University graduated economist
**Professional profile:** Mateja Lovšin Herič (1969) has been with Slovenian Sovereign Holding d.d. (previously: Slovenian Restitution Company) since 1995, and is currently director of the department for capital asset management in financial sector. She has extensive experience in managing equity investments, as well as in steering and participating in large and complex projects led by Slovenian Sovereign Holding d.d. She has served as a member of the supervisory board of four public limited companies. This is her third consecutive term of office as member of the supervisory board of Sava Re (since 2009). Currently, she is the chair of the supervisory board, a member of the audit committee and the chair of the Sava Re supervisory board's nominations and remuneration committee. She holds a certificate issued by the Slovenian Directors' Association certifying that she is a qualified member of supervisory and management bodies.
**Beginning of term of office:** 16 July 2017
**End of term of office:** 16 July 2021
**Notes on memberships of management or supervisory bodies of third parties:** /

**Keith William Morris,**
**deputy chair of the supervisory board**

**Employment:** retiree
**Educational background:** Bachelor's degree in management sciences; specialised in finance and marketing
**Professional profile:** Keith William Morris (1948) is a British citizen. For most of his career, Keith William Morris worked in finance. From 1989 and until his retirement he worked in chief executive roles, mostly in insurance and within large groups, such as Eagle Star Group, American International Group (AIG), Allianz Group and RBS Insurance (Direct Line Group). From 2003 to 2008, he served as non-executive director of Standard Life Bank and Standard Life Insurance Company and has also served in non-executive roles with six other small organisations. This is his second term of office as member of the supervisory board of Sava Re (since 2013). Currently, he is the deputy chair of the supervisory board, the chair of the risk committee, a member of the nominations and remuneration committee and a member of the Sava Re supervisory board's fit and proper committee.
**Beginning of term of office:** 16 July 2017
**End of term of office:** 16 July 2021
**Notes on memberships of management or supervisory bodies of third parties:**

- European Reliance S.A., Kifisias Aven. 274, 152 32, Chalandri, Greece – non-executive member of the board of directors
- HMS Victory Preservation Endowment Fund Ltd, HM Naval Base (PP66) Portsmouth Hampshire PO1 3NH, United Kingdom – chairman of the board of directors

**Davor Ivan Gjivoje, Jr.,**
**member of the supervisory board**

**Employment:** Networld Inc. / DGG Holdings Ltd.
**Educational background:** Master in Business Administration
**Professional profile:** Davor Ivan Gjivoje (1968) is an American citizen. He is the chief executive of an international holding company, the main activities of which are hotel development, airline marketing and strategic investments. Over the past 20 years, he has held various top executive positions at Networld Inc. / DGG Holdings Ltd. Prior to that, he worked in banking (Citibank NA) and as a consultant (The Boston Consulting Group). Davor Ivan Gjivoje is also active in philanthropy, as a member of the philanthropic board of the Gagnon Cardiovascular Institute, located in the greater New York Area, and in education as President of the Board of Education of the Harding Township School, Harding, New Jersey. He has served on the Sava Re supervisory board since 2017 (first term of office). His also serves on the Sava Re supervisory board's risk committee, and the nominations and remuneration committee.
**Beginning of term of office:** 7 March 2017
**End of term of office:** 7 March 2021
**Notes on memberships of management or supervisory bodies of third parties:**
- Networld, Inc./DGG Holdings, Ltd., 89 Headquarters Plaza, North Tower, (Suite 1420) Morristown, NJ 07960, USA – managing director
- Adria Lines Dover, Delaware, USA – managing director
- Networld Inc., 89 Headquarters Plaza, North Tower, Suite 1420 Morristown, NJ 07960, USA – managing director

**Andrej Kren,**
**member of the supervisory board**

**Employment:** Delo d.o.o.
**Educational background:** University graduated lawyer
**Professional profile:** Andrej Kren (1960) started his professional career in the industry in 1988 in the business strategy department of ETA Cerkno, and from 1992 to 1995 served as the managing director of Avtocenter Idrija d.o.o. Since 1995, he has been steering and coordinating the operations of various activities of the company FMR d.d., including the establishment, control and financing of subsidiaries and various forms of long- and short-term financial investments. He has been the chairman of the management board of FMR d.d. since 2008. Since 2017, he has been the chief executive of the news publisher Delo d.o.o. He has served on the Sava Re supervisory board since 2017 (first term of office). Currently, he is also the chair of the Sava Re supervisory board's audit committee, a member of its nominations and remuneration committee and an alternate member of its fit and proper committee.
**Beginning of term of office:** 16 July 2017
**End of term of office:** 16 July 2021
**Notes on memberships of management or supervisory bodies of third parties:**
- Delo d.o.o., Dunajska 5, 1000 Ljubljana, Slovenia – chief executive
- RSG Kapital d.o.o., Breg 14, 1000 Ljubljana, Slovenia – member of the supervisory board

## Supervisory board members representing employees

**Andrej Gorazd Kunstek,**
**member of the supervisory board**

**Employment:** Sava Re d.d.
**Educational background:** University graduated economist, Master of science in economics
**Professional profile:** After completing his studies at the Faculty of Economics, Andrej Gorazd Kunstek (1974) started working for Sava Re and now has over 19 years of experience in reinsurance underwriting and technical accounting of reinsurance business. Since 2007 he has been director of technical accounting in the reinsurance operations department. This is his second term of office as a member of the supervisory board of Sava Re (since 2013).
**Beginning of term of office:** 11 June 2015
**End of term of office:** 11 June 2019
**Notes on memberships of management or supervisory bodies of third parties:** /

**Mateja Živec,**
**member of the supervisory board**

**Employment:** Sava Re d.d.
**Educational background:** University graduated economist, Master of science in economics
**Professional profile:** Mateja Živec (1975) has many years of experience in banking and insurance (over 16 years in insurance). Prior to joining Sava Re in 2014, she headed the asset management department of Zavarovalnica Triglav for 12 years. This is her first term of office as member of the supervisory board of Sava Re (since April 2016). She is also the chair of the fit and proper committee of the Sava Re supervisory board.
**Beginning of term of office:** 1 April 2016
**End of term of office:** 11 June 2019
**Notes on memberships of management or supervisory bodies of third parties:** /

## Management of conflicts of interest

The supervisory board members committed themselves, upon taking office in 2017 (employee representatives in 2015 and 2016), to meeting the criteria of conflicts of interest as set out in Annex B to the Slovenian Corporate Governance Code for Listed Companies by each signing a statement of independence of supervisory board members of Sava Re. The statements on the independence of supervisory board members are signed annually and posted on the Company's website, at www.sava-re.si, under the About Us/Supervisory Board tab.

The rules on procedures for managing conflicts of interest are set out in the "Rules on the management of conflicts of interest of Sava Re d.d."

In 2018, all supervisory board members declared themselves independent.

The supervisory board members experienced no circumstances that would give rise to any conflicts of interest in 2018.

## Remunerations, compensations and other benefits

Remuneration of supervisory board members is discussed in detail in section 23.10 "Related party disclosures" in the notes to the financial statements.

## POSR holdings of supervisory board members

#### POSR shares held by supervisory board members as at 31 December 2018[15]

| | No. of shares | Holding (%) |
|---|---|---|
| **Andrej Gorazd Kunstek** | 2,900 | 0.0168% |
| **Total** | **2,900** | **0.0168%** |

More information on the activities of the supervisory board in 2018 is provided in section 4 "Report of the supervisory board".

[15] Source: Central securities register KDD d.d.

## 5.3.3 Supervisory board committees

In accordance with legislation, the Slovenian Corporate Governance Code for Listed Companies and best practices, the supervisory board may appoint one or more committees and task them with specific areas, with the preparation of proposed resolutions of the supervisory board, and with the implementation of resolutions of the supervisory board, in order for the committee to provide professional support to the supervisory board.

**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. If none is in place, the rules of procedure of the supervisory board apply mutatis mutandis, for any questions regarding the quorum, decision-making and other procedural issues.

## Audit committee

### Operation of the audit committee

The tasks and terms of reference of the audit committee of the supervisory board are set out in the Slovenian Companies Act, its rules of procedure and those of the supervisory board, and other autonomous legal acts (e.g. recommendations for audit committees).

### Terms of reference of the audit committee

**The chief tasks of the audit committee include:**
- 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.

### The audit committee in 2018

#### Composition of the audit committee in 2018

| Member | Title | Beginning of term of office | End of term of office |
|---|---|---|---|
| **Andrej Kren** | chairman | 16/08/2017 | 16/07/2021 |
| **Mateja Lovšin Herič** | member and deputy chair | 16/08/2017 | 16/07/2021 |
| **Ignac Dolenšek** | external member | 16/08/2017 | 16/07/2021 |

## Risk committee

### Operation of the risk committee

In its operation, the risk committee is bound by the provisions of resolutions of the supervisory board, the Solvency II Directive, its rules of procedure and those of the supervisory board, the Slovenian Insurance Act and other applicable risk management regulations.

### Terms of reference of the risk committee

**The chief tasks of the risk committee include:**

- to assess the impact of various types of risk on economic and regulatory capital;
- 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.

### The risk committee in 2018

#### Composition of the risk committee in 2018

| Member | Title | Beginning of term of office | End of term of office |
|---|---|---|---|
| Keith William Morris | chairman | 24/08/2017 | 16/07/2021 |
| Davor Ivan Gjivoje | member | 24/08/2017 | 16/07/2021 |
| Slaven Mićković | external member and deputy chair | 24/08/2017 | 16/07/2021 |

## Nominations and remuneration committee

### Operation of the nominations and remuneration committee

The supervisory board of Sava Re, in line with the recommendations of the Slovenian Corporate Governance Code for Listed Companies, appointed a four-member nominations and remuneration committee as a special committee of the supervisory board to carry out objective and transparent selection procedures of candidates for members of the management board and the shareholder representatives of supervisory board, which the supervisory board then proposes to the general meeting for election.

### Terms of reference of the nominations and remuneration committee

**The chief tasks of the nominations and remuneration committee 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 before submitting a proposal to the supervisory board;
- to carry out the nomination procedure for the nomination of any candidate 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.

### The nominations and remuneration committee in 2018

#### Composition of the nominations and remuneration committee in 2018

| Member | Title | Beginning of term of office | End of term of office |
|---|---|---|---|
| Mateja Lovšin Herič | chair | 24/08/2017 | 16/07/2021 |
| Keith William Morris | member | 24/08/2017 | 16/07/2021 |
| Davor Ivan Gjivoje | member | 24/08/2017 | 07/03/2021 |
| Andrej Kren | member | 24/08/2017 | 16/07/2021 |

## Fit and proper committee

### Operation of the fit & proper committee

Sava Re must ensure that persons who effectively run and oversee the company are properly qualified (fit) and suitable (proper) for managing and overseeing the company in a professional manner, not only upon appointment but throughout the performance of their function. In addition to the appropriate qualifications, experience and expertise (fit) that members of the management and the supervisory boards as collective bodies need to demonstrate, they need to demonstrate good repute and high standards of integrity through their actions (proper).

The fit and proper committee shall perform its tasks in accordance with the Company's internal fit and proper policy.

### Terms of reference of the fit & proper committee

**The chief tasks of the fit & proper committee include:**

- to carry out procedures for assessing the competence of the supervisory board, supervisory board committees and the management board as collective bodies as well as for assessing compliance with the fit and proper requirements related to individual members of these bodies;
- upon request from the Company's workers' council, to carry out a fit and proper assessment of any member of the supervisory board elected by the workers' council.

### The fit & proper committee in 2018

#### Composition of the fit & proper committee in 2018

| Member | Title | Beginning of term of office | End of term of office |
|---|---|---|---|
| Mateja Živec | chair | 24/08/2017 | 09/06/2019 |
| Keith William Morris | member | 24/08/2017 | 16/07/2021 |
| Nika Matjan | external member | 24/08/2017 | 27/02/2018 |
| Rok Saje | external member | 08/03/2018 | 16/07/2021 |
| Andrej Kren | alternate member | 24/08/2017 | 16/07/2021 |

## 5.3.4 Management board

### Operation of the management board

The management board represents the Company in its legal transactions. In this, it acts in accordance with the applicable legislation, particularly the Slovenian Companies Act and the Insurance Act, as well as with the articles of association and the act on the management board and its rules of procedure.

### Terms of reference of the management board

**The chief tasks of the management board include:**

- 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.

### Powers of the management board (increase in share capital, acquisition of own shares)

The management board has no authorisation to increase the share capital.

### The management board in 2018

The management board conducts the business of the Company and represents it in public and legal matters. It 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 in regular employment 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.

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The management is composed so as to ensure responsible oversight and decision making in the best interest of the Company. The management board's composition takes account of diversification 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 2018 the Company sought to align the composition of the management board with the Company's 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 management board in order to ensure the working continuity of both bodies,
- 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.

The implementation of the policy on the diversity of the management board in 2018 is detailed below.

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 starting on 1 June 2018. Polona Pirš Zupančič was appointed as fourth member of the management board, starting her term on 14 January 2018. Mateja Treven concluded her role as management board member on 13 January 2018.

**Composition of the management board in 2018**

| Member | Title | Beginning of term of office | Expiry of term of office |
|---|---|---|---|
| Marko Jazbec | chair | 12/05/2017 | 12/05/2022 |
| Srečko Čebron | member | 01/06/2018 | 01/06/2023 |
| Jošt Dolničar | member | 01/06/2018 | 01/06/2023 |
| Polona Pirš Zupančič | member | 14/01/2018 | 14/01/2023 |
| Mateja Treven | member | 01/06/2013 | 13/01/2018 |

The average age of the members of the management board is 50.25. All management board members are citizens of the Republic of Slovenia.[16]

[16] GRI 202-2

## Educational background, professional profile, gender, year of birth, beginning of term of office, areas of responsibility, and memberships of third party management or supervisory bodies

**Marko Jazbec,**
**chairman of the management board**

**Educational background:** University graduated economist
**Professional profile:** Marko Jazbec (1970) held top management positions in the Bank of Slovenia, SKB banka d.d., and Droga Kolinska d.d., served on the boards of Droga d.d., Intereuropa d.d., and NLB d.d., and was chair of the management board of Hoteli Bernardin d.d. Until mid-July 2016, he headed the Slovenian Sovereign Holding. Over the course of his career, he has gained extensive experience in asset management, risk management, treasury, corporate finance and corporate banking, and particularly valuable experience in the governance of banks and other companies. In addition, he has operational management experience in mergers, acquisitions and sales of companies, asset and capital investments, in the preparation and implementation of investment projects, as well as extensive practical experience in the financial and operational restructuring of companies. This is his first term of office as chair and member of the Sava Re management board.
**Beginning of term of office:** 12 May 2017
**Term of office:** five years
**Areas of responsibility (management board):** coordination of the operation of the management board, finance, general affairs, human resource and legal affairs, public relations, compliance and internal audit
**Memberships of other supervisory bodies of Group companies: /**
**Memberships of management or supervisory bodies of third parties: /**

**Srečko Čebron,**
**member of the management board**

**Educational background:** University graduated mining engineer
**Professional profile:** Srečko Čebron (1954) started his career with Generali in Trieste. He gained most of his predominantly international experience in insurance at Zavarovalnica Tilia (Slovenia), Unipol (Milano, Bologna and Moscow), ICMIF (Manchester) and Euresap (Lisbon). In his extended stays abroad, Srečko acquired considerable foreign language skills. From 2001 to 2008, he was a member of the management board of the insurer Zavarovalnica Maribor. This is his second term of office as a member of the management board of Sava Re (since 2009).
**Beginning of term of office:** 1 June 2018
**Term of office:** five years
**Areas of responsibility (management board):** reinsurance operations, facultative reinsurance underwriting, actuarial affairs
**Memberships of other supervisory bodies of Group companies: /**
**Memberships of management or supervisory bodies of third parties: /**

**Jošt Dolničar,**
**member of the management board**

**Educational background:** University graduated lawyer
**Professional profile:** Jošt Dolničar started his career in Zavarovalnica Triglav, where he worked for nine years, most recently as executive director of the non-life business. Through much of his life, he has been actively involved in sports, and is still a licensed rowing trainer, a member of the legal committee and an arbitrator with the arbitration court of the Slovenian Olympic Committee. He joined Sava Re in 2006 as senior executive responsible for the management of Group subsidiaries. This is his second term of office as member of the management board of Sava Re (since 2008). He was the chairman of the Sava Re management board from 23 August 2016 to 11 May 2017.
**Beginning of term of office:** 1 June 2018
**Term of office:** five years
**Areas of responsibility (management board):** management of strategic investments in direct insurance subsidiaries, modelling, IT, technology and innovation, process information technology, pension insurance

**Memberships of other supervisory bodies of Group companies:**
- Sava Neživotno Osiguranje a.d., Bulevar vojvode Mišića 51, 11000 Belgrade, Serbia – member of the board of directors
- Sava Osiguranje a.d., P.C Kruševac, Rimski trg 70, 81000 Podgorica, Montenegro – member of the board of directors
- Zavarovalnica Sava d.d., Cankarjeva 3, 2000 Maribor, Slovenia – chair of the supervisory board
- Sava Pokojninska Družba d.d., Ulica Vita Kraigherja 5, 2103 Maribor, Slovenia – supervisory board member (since 4 December 2017)
- Got2Insure, Ltd., Bailey House, 4-10 Barttelot Road, Horsham, West Sussex, RH12 1DQ, UK – non-executive director
- ZTSR, raziskovanje trga d.o.o., Dunajska cesta 22, 1000 Ljubljana, Slovenia – chair of the supervisory board

**Memberships of management or supervisory bodies of third parties:**
- Slovenian Rowing Federation, Župančičeva cesta 9, 4260 Bled, Slovenia – president
- Olympic Committee of Slovenia – member of the executive board

**Polona Pirš Zupančič,**
**member of the management board**

**Educational background:** University graduated economist, Master of science in economics
**Professional profile:** In 1999, after graduating in economics, Polona Pirš Zupančič (1975) started her career as an analyst in the Sava Re reinsurance operations department. Since 2009 she headed the corporate finance and controlling department as executive director. In addition to many years of experience in insurance, Polona Pirš Zupančič has a long track record of leading and contributing to major and complex projects, strategically important for both the Company and the Sava Re Group. She holds an advanced degree in economics (magister ekonomskih znanosti) from the University of Ljubljana. This is her first term of office as a member of the Sava Re management board.
**Beginning of term of office:** 14 January 2018
**Term of office:** five years
**Areas of responsibility (management board):** corporate finance and controlling, investor relations, accounting, risk management

**Memberships of other supervisory bodies of Group companies:**
- Sava Osiguruvanje a.d., Ulica zagrebška br. 28 A, 1000 Skopje, North Macedonia – member of the board of directors
- Sava Životno Osiguranje a.d.o., Bulevar vojvode Mišića 51, 11000 Belgrade, Serbia – chair of the board of directors
- Zavarovalnica Sava d.d., Cankarjeva 3, 2000 Maribor, Slovenia – member of the supervisory board

**Memberships of management or supervisory bodies of third parties: /**

## Remunerations, compensations and other benefits

Remuneration of management board members is discussed in detail in section 23.10 “Related party disclosures” in the notes to the financial statements.

## Shareholdings

### POSR shares held by management board members as at 31 December 2018[17]

| Shareholder | No. of shares | Holding (%) |
|---|---|---|
| Marko Jazbec | 2,300 | 0.0134% |
| Srečko Čebron | 2,700 | 0.0157% |
| Jošt Dolničar | 4,363 | 0.0253% |
| Polona Pirš Zupančič | 2,478 | 0.0144% |
| **Total** | **11,841** | **0.0688%** |

[17] Source: Central securities register KDD d.d.

## 5.4 Financial reporting: internal controls and risk management[18]

Internal controls comprise a system of guidelines and processes designed and implemented by Sava Re at all levels to manage risks associated, among other things, with financial reporting. These controls work to guarantee the efficiency and effectiveness of operations, the reliability of financial reporting and compliance with applicable regulations and internal acts.

Apart from the Companies Act (ZGD), Sava Re is governed by the Insurance Act (ZZavar), which provides that insurance companies must put in place and maintain an appropriate internal control and risk management system. Relevant implementing regulations based on the Insurance Act, which the Company strictly follows, are issued by the Insurance Supervision Agency.

Financial controls are tightly connected to information technology controls, which are aimed among other things at restricting and controlling access to the network, information and applications, and at controlling the completeness and accuracy of data entry and processing.

Internal controls applying to financial reporting on the consolidated basis are set out in the internal accounting rules and in the Sava Re Group financial control rules. Members of the Sava Re Group submit the financial information required for the preparation of the consolidated financial statements in reporting packages, prepared in accordance with International Financial Reporting Standards (IFRS) and the controlling company's guidelines, within the time limits set out in the Company's financial calendar. Reporting packages have inbuilt cross controls that ensure the consistency of information, and are reviewed by external auditors. In addition, Group members submit their separate financial statements, which constitutes an additional control measure. By unifying information systems and applications that support consolidation, planning and reporting, the exchange of financial data among Group companies is becoming ever more efficient. Whether necessary information system controls have been put in place and function adequately is verified, on an annual basis, by relevant experts as part of the regular annual auditing of financial statements.

In addition to the above mentioned control systems, Sava Re has put in place internal control systems for other vital work processes. Internal controls include procedures and acts ensuring compliance with the law and internal rules. All major business processes in Sava Re have been specified, including details on control points together with persons responsible for individual controls. Basic controls are carried out by reviewing documents received or by an automatic or manual control procedure of processed data.

Sava Re complies with all rules and regulations on handling confidential data and inside information, on allocation of investments and prohibition of trading based on inside information. In addition, it regularly controls employee dealings in financial instruments for own account.

Other entities authorised by Sava Re for the provision of individual services must do so in compliance with the law, implementing acts, contracts for service, internal rules and job instructions that are applicable at Sava Re.

The Company has designated an internal control system administrator responsible for maintaining a record of identified internal control weaknesses, including recommended measures for improving the internal control system. Pursuant to the Insurance Act, Sava Re set up an internal audit department that is responsible for assessing the adequacy and effectiveness of internal controls employed, and their reliability in the Company's pursuit of objectives and management of risks. The internal audit department reports on its findings to the management board, the audit committee and the Company's supervisory board.

## 5.5 External audit

The financial statements of the controlling company have been audited by Ernst & Young d.o.o., Dunajska 111, Ljubljana, who have been tasked with the auditing of the financial statements of the Sava Re Group and Sava Re in 2018 for the sixth year in a row. In 2018 most of the Group's subsidiary companies were audited by the local auditing staff of the same auditing firm. The 2018 financial statements for four Group member were audited by another audit firm.

A contract for the auditing of the financial statements was signed with Ernst & Young in 2016, applying to the period from 2016 to 2018.

The Company complies with the Companies Act provision on auditor rotation.

[18] GRI 103-1, 103-2

## 5.6 Details pursuant to article 70(6) of the Companies Act[19]

### Composition of the Sava Re Group share capital

#### Ten largest shareholders of Sava Re as at 31 December 2018[20]

| | Shareholder | No. of shares | Holding (%) |
|---|---|---|---|
| 1 | Slovenski Državni Holding d.d. (Slovenian Sovereign Holding) | 3,043,883 | 17.7% |
| 2 | Zagrebačka Banka d.d. – fiduciary account | 2,439,852 | 14.2% |
| 3 | Republic of Slovenia | 1,737,436 | 10.1% |
| 4 | Sava Re d.d. (own shares)* | 1,721,966 | 10.0% |
| 5 | European Bank for Reconstruction and Development (EBRD) | 1,071,429 | 6.2% |
| 6 | Raiffeisen Bank Austria d.d. (fiduciary account) | 786,690 | 4.6% |
| 7 | Modra Zavarovalnica d.d. | 714,285 | 4.1% |
| 8 | Abanka d.d. | 655,000 | 3.8% |
| 9 | Hrvatska Poštanska Banka – fiduciary account | 337,003 | 2.0% |
| 10 | Guaranteed civil servants' sub-fund | 320,346 | 1.9% |
| | Total | 12,827,890 | 74.5% |

* Own shares carry no voting rights.

All shares of Sava Re are ordinary registered shares with no par value; all were issued in a dematerialised form and pertain to the same class.

The shares give their holders the following rights:

- the right to participate in the Company's management, with one share carrying one vote in the general meeting;
- the right to a proportionate part of the Company's profit (dividend);
- the right to a corresponding part of the remaining assets upon the liquidation or bankruptcy of the Company.

Pursuant to the Sava Re articles of association and the applicable legislation, current Sava Re shareholders also hold pre-emptive rights entitling them to take up shares in proportion to their existing shareholding in any future stock offering; their pre-emptive rights can only be excluded under a resolution to increase share capital adopted by the general meeting by a majority of at least three-quarters of the share capital represented.

### Share transfer restrictions

All Sava Re shares are freely transferable.

### Qualifying shareholders under the Takeover Act

As at 31 December 2018, the following shareholders of Sava Re[21] exceeded the five-percent share threshold (qualifying holding in accordance with article 77 of the Slovenian Takeover Act, ZPre-1):

| Shareholder | No. of shares | Holding (%) |
|---|---|---|
| Slovenski Državni Holding d.d. (Slovenian Sovereign Holding) | 3,043,883 | 17.7% |
| Zagrebačka Banka d.d. – fiduciary account | 2,439,852 | 14.2% |
| Republic of Slovenia | 1,737,436 | 10.1% |
| Sava Re d.d. (own shares)* | 1,721,966 | 10.0% |
| European Bank for Reconstruction and Development (EBRD) | 1,071,429 | 6.2% |
| Total | 10,014,566 | 58.2% |

On 2 June 2016, Sava Re received a notice from Adris Groupa d.d., Vladimira Nazora 1, 52210 Rovinj, Croatia, 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.

* Own shares carry no voting rights.

### Holders of securities carrying special control rights

Sava Re issued no securities carrying special control rights.

### Employee share schemes

Sava Re has no employee share scheme.

### Restrictions of voting rights

Sava Re adopted no restrictions on voting rights.

### Shareholders' agreements restricting transferability of share or voting rights

Sava Re is not aware of any such agreements between shareholders.

[19] GRI 201-4

[20] Source: Central securities register KDD d.d., GRI 102-5

[21] Source: Central securities register KDD d.d.

## Rules on appointment/removal of members of management/supervisory bodies and on amendments to the articles of association

**Company rules on appointment/removal of management board members**

Pursuant to Sava Re articles of association, 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 limitation. Natural persons with full legal capacity that meet the requirements set down by law and internal rules may be appointed members of the management board. The process and criteria for the selection of candidates for members of the management board as well as the process of periodic fit and proper assessments of individual members is clearly set out in the Company's fit and proper policy.

The management board, as a whole or its individual members, may be recalled by the supervisory board for reasons prescribed by law.

**Sava Re rules on appointment/removal of supervisory board members**

Pursuant to the Sava Re articles of association, 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 subsequently informs the general meeting of its decision. Shareholder representatives of the supervisory board are elected by the general meeting, by a majority of votes present. The term of office of supervisory board members is four years, and is renewable. Natural persons with full legal capacity that meet the requirements set down by law and internal rules may be appointed members of the supervisory board. The process and criteria for the selection of candidates for membership of the supervisory board and for drafting proposals for general meeting resolutions on the appointment of supervisory board members, including the process of periodic fit and proper assessments of individual members, is clearly set out in the Company's fit and proper policy.

Supervisory board members who are shareholder representatives may be recalled by the general meeting for reasons as prescribed by law based on a general meeting resolution adopted by a majority of at least three-quarters of the share capital represented.

**Sava Re rules on amendments to its articles of association**

The Sava Re articles of association do not contain special provisions governing their amendment. Pursuant to applicable legislation, they may be amended by resolution of the general meeting by a majority of at least three quarters of the share capital represented.

## Powers of the management board, especially relating to own shares

With the additional own share repurchases in April 2016, the management board fully exhausted the general meeting authorisation granted in 2014 to purchase own shares up to 10% minus one share of the share capital.

## Important agreements that become effective, change or terminate after a public takeover bid results in a control change

Sava Re protects itself against the risk of losses by reinsuring its own account (retrocession). Retrocession contracts usually contain provisions governing contract termination in cases involving significant changes in ownership or control of the counterparty.

## Agreements between an entity and members of its management/supervisory bodies on compensation in case of (i) resignation, (ii) dismissal without cause or (iii) employment relationship termination due to any bid specified in the law governing takeovers

Sava Re management board members are not entitled to severance pay in case of resignation.

A management board member is entitled to severance pay if recalled for other economic or business reasons (major change in shareholder structure, reorganisation, launch of new product, major change in Company objects and such like) and the employment relationship with the Company is terminated.

A management board member is also entitled to severance pay if their function is terminated by mutual consent in conjunction with a termination of their employment relationship with the Company.

Ljubljana, 28 March 2019
Save Re Management Board

Marko Jazbec, Chairman

Srečko Čebron, Member

Jošt Dolničar, Member

Polona Pirš Zupančič, Member

Ljubljana, 3 April 2019
Save Re Supervisory Board

Mateja Lovšin Herič, Chair

# Knowledge and innovation

**Progress is the result of personal and professional growth. As our work is our passion, we continue to broaden our knowledge and encourage innovation in our teams.**

# 6 Mission, vision, strategic focus and goals

**2018**

**2018 goals exceeded.**

## 6.1 Mission and vision[22]

We are working to become a recognised provider of comprehensive insurance and reinsurance services in our target markets, to establish a climate of trust and loyalty among stakeholders, to become recognised as a company that communicates transparently and fairly, to meet the expectations of our shareholders and achieve an adequate return on equity, to raise the awareness about the organisation's values and to integrate them into fundamental business policies and people's behaviour.

Through a positive climate, good business culture, continuous training and investments in employees, we contribute to a continuous development of insurance and ancillary products and to more optimal business processes. We are developing a Group-specific corporate culture that will be reflected in the quality of services and in the loyalty of the employees to their company and the Group.

By definition, insurance is the provision of economic security through the spreading of economic risks, which is why the industry is tightly intertwined with the economy at large. Within this system, Sava Re has a responsibility to support activities that contribute to improving the social environment. Sustainable development is an area to which the Company is increasingly committed. Special attention is given to the exchange of knowledge, ongoing training of employees and external stakeholders and the utilization of synergies among Sava Re Group companies. The social responsibility demonstrated by the Company reflects the values on which we intend to focus more in the future.

[22] GRI 102-16

## Our mission

**Through commitment and constant progress, we ensure security and quality of life.**

## Our vision

**We are creating a modern, digital, people-focused and sustainable insurance Group.**

## What we are like

**We grow relationships with our colleagues in a responsible, frank and respectful manner.**

**We exceed client expectations with our ongoing efforts to make improvements and strengthen relationships.**

**We are active in relation to the environment (owners, social environment).**

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## 6.2 Goals achieved in 2018[23]

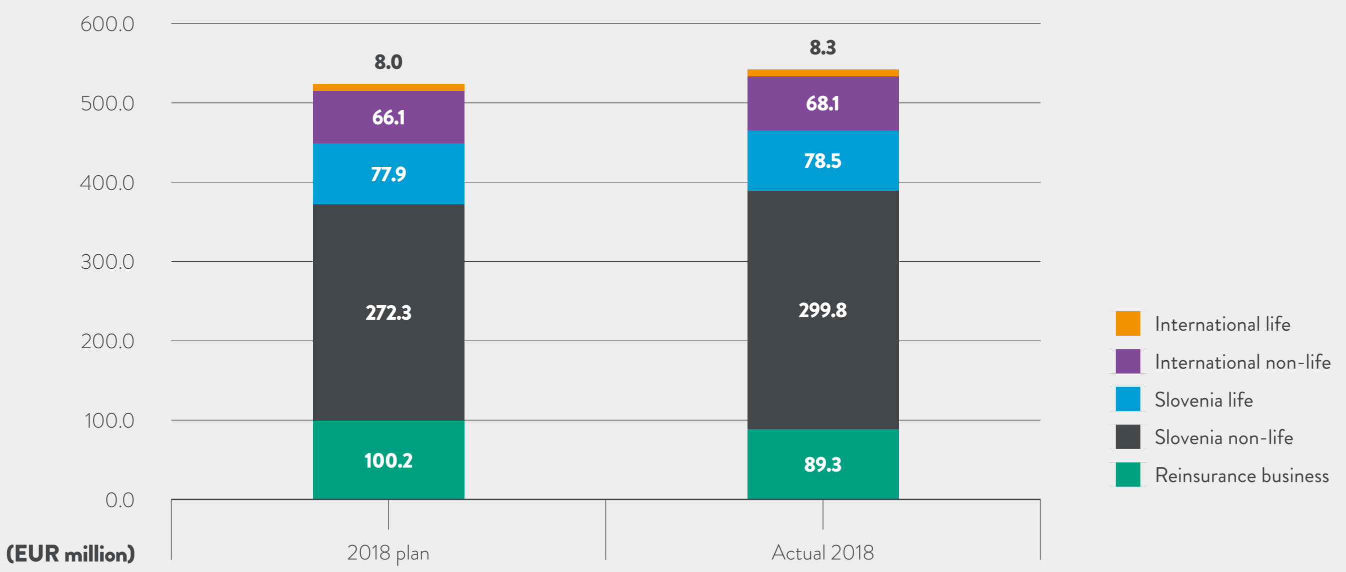
**The Sava Re Group achieved the following targets in 2018:**

| (EUR million) | 2018 plan | Actual 2018 | Index / deviation in p.p. |
|---|---|---|---|
| Gross written premiums | > 520.0 | 546.3 | 105.1 |
| Growth in premiums | 2.8% | 5.6% | 2.8 p.p. |
| Net expense ratio | 31.4–31.7% | 33.1% | 1.4 p.p. |
| Net incurred loss ratio, excluding the effect of exchange differences | 59.4–59.9% | 57.0% | -2.9 p.p. |
| Net combined ratio, excluding the effect of exchange differences | 94.0–94.5% | 92.9% | -1.6 p.p. |
| Profit, net of tax | 37.0–39.0 | 43.0 | 116.2 |
| Investment return, excluding the effect of exchange differences | 1.7% | 1.7% | 0.0 p.p. |
| Return on equity | > 11.0% | 13.1% | 2.1 p.p. |

* The net incurred loss ratio and the net combined ratio are given for the reinsurance and non-life insurance operating segments.
**The net expenses ratio is given for the reinsurance, non-life insurance and life operating segments.

In 2018 the Sava Re Group exceeded its target gross premiums written, primarily as a result of the high premium growth achieved by the Slovenian Zavarovalnica Sava. While the expense ratio was only slightly higher than planned, the net incurred loss ratio and the combined ratio were both poorer than planned. The Group's expense ratio increased as a result of a higher expense ratio in the reinsurance segment (lower premiums and higher commission rates aggravated by the current soft reinsurance market) and the acquisitions of companies underway. The incurred loss ratio and the combined ratio are lower thanks to a low incidence of large losses. The investment return did not deviate from the planned one. The return on equity of 13.1% exceeded the target figure. All major metrics remained within the ranges set in the Group's strategic plan

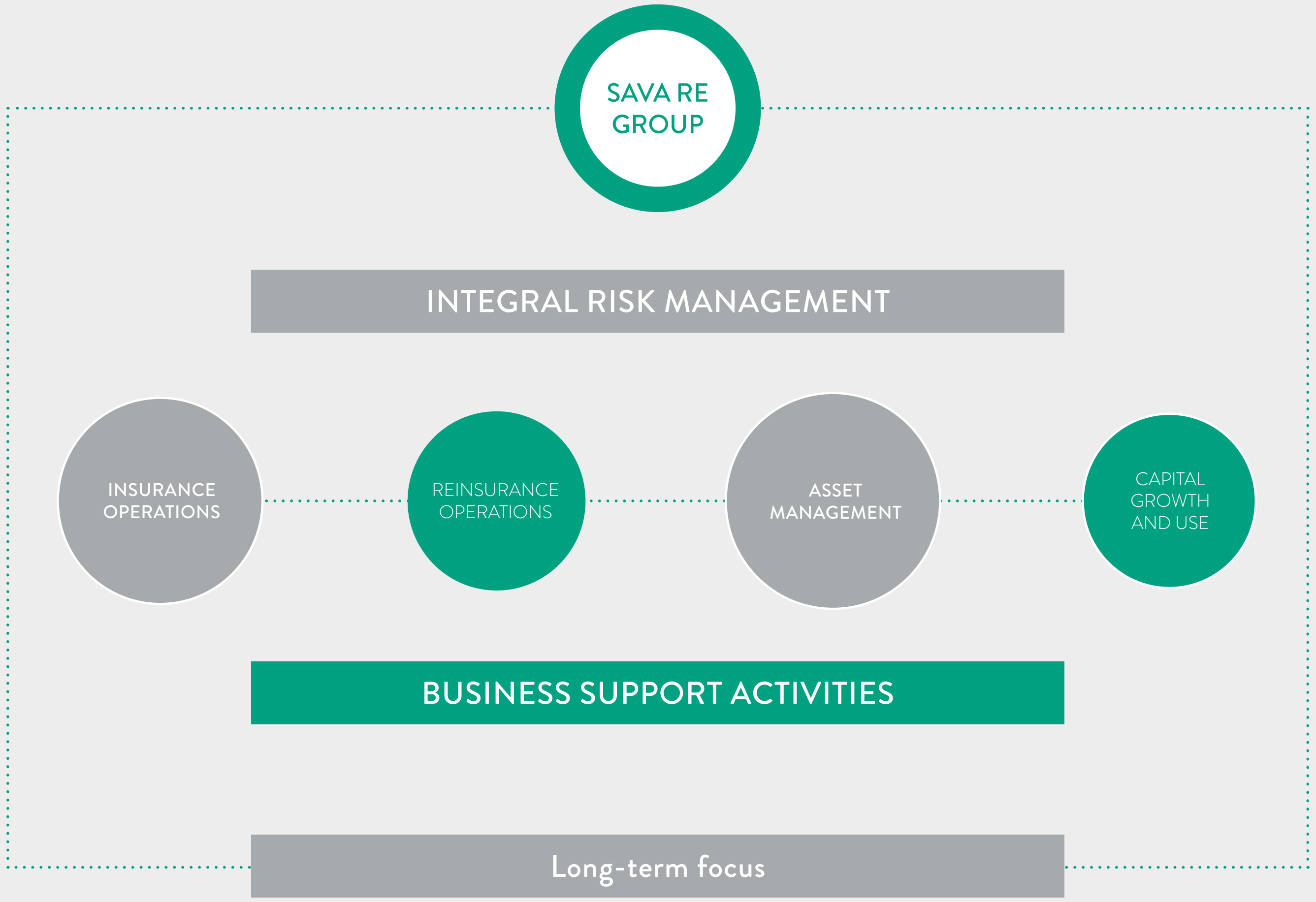
**Realisation of planned consolidated gross premiums written**




[23] GRI 103-1, 103-2, 103-3

## 6.3 Sava Re Group strategy highlights

**The Sava Re Group defines its strategy in terms of four pillars:**




**Key guidelines set out in the strategy:**
- digitalisation and technological modernisation of operations to place the client in the centre;
- growth through acquisitions;
- seeking opportunities in environmentally/sustainability-oriented investment projects;
- closing the gap between intrinsic value and market price of shares.

**Long-term strategic targets:**

- The long-term objective is to achieve, at the Group level and in terms of a 3-year average, a return on equity (ROE) that at is at least equal to the cost of capital. The internally-calculated cost of equity of the Sava Re Group with regard to its composition is 10.4% (+/- 0.5 p.p.).
- In the period 2017–2019, the solvency ratio at the Group level will be in the range of 170% and 230% (between the lower end of the optimum/target range and the upper end of suboptimal capital).
- Non-life business of the Group will achieve a three-year average combined ratio of not more than 95%, while reinsurance[24] will achieve a combined ratio of not more than 93%.
- As regards life insurance business, the profitability of new policies written by Zavarovalnica Sava and insurers outside Slovenia will be at least 5% and 2.5%, respectively (ratio of the value of new policies to the present value of expected premiums of such new policies).

## Strategic directions by operating segment

**Non-life insurance business in Slovenia:**

- strengthening the position of the combined insurer in the market;
- improving the results of the non-life insurance segment other than motor insurance;
- taking advantage of segment cost synergies.

**Life insurance in Slovenia:**

- strengthening the position of the combined insurer in the market;
- maintaining premium volumes and particularly profitability of life business;
- taking advantage of segment cost synergies.

**Health insurance in Slovenia:**

- boosting health insurance product sales in Zavarovalnica Sava; gradual roll-out to companies outside Slovenia.

**Pension business:**

- growth above market growth rates;
- utilisation of synergies in the Group;
- active approach to the marketing and promotion of increasing individuals' contributions to pension funds.

**Reinsurance operations:**

- growth in international reinsurance markets;
- maintaining a high-quality reinsurance portfolio;
- good geographic diversification.

**Bancassurance:**

- streamlining processes in existing banking partners, developing new products and forming new partnerships.

**Assistance services:**

- development of own assistance services in Slovenia and roll-out of assistance services to other Group companies;
- expansion of assistance services to include health and home assistance.

**Non-Slovenian operations:**

- making use of established platforms (in terms of processes and products) to increase growth in gross premiums written;
- improving the expense ratios;
- seeking opportunities through investments in vehicle inspection;
- strengthening companies' brand recognition;
- increasing the productivity of the sales network and focus on premium and recourse collection;
- utilising synergies in Group subsidiaries in individual markets;
- development and focus both on selling products with a higher risk component and on more affordable products (life policies);

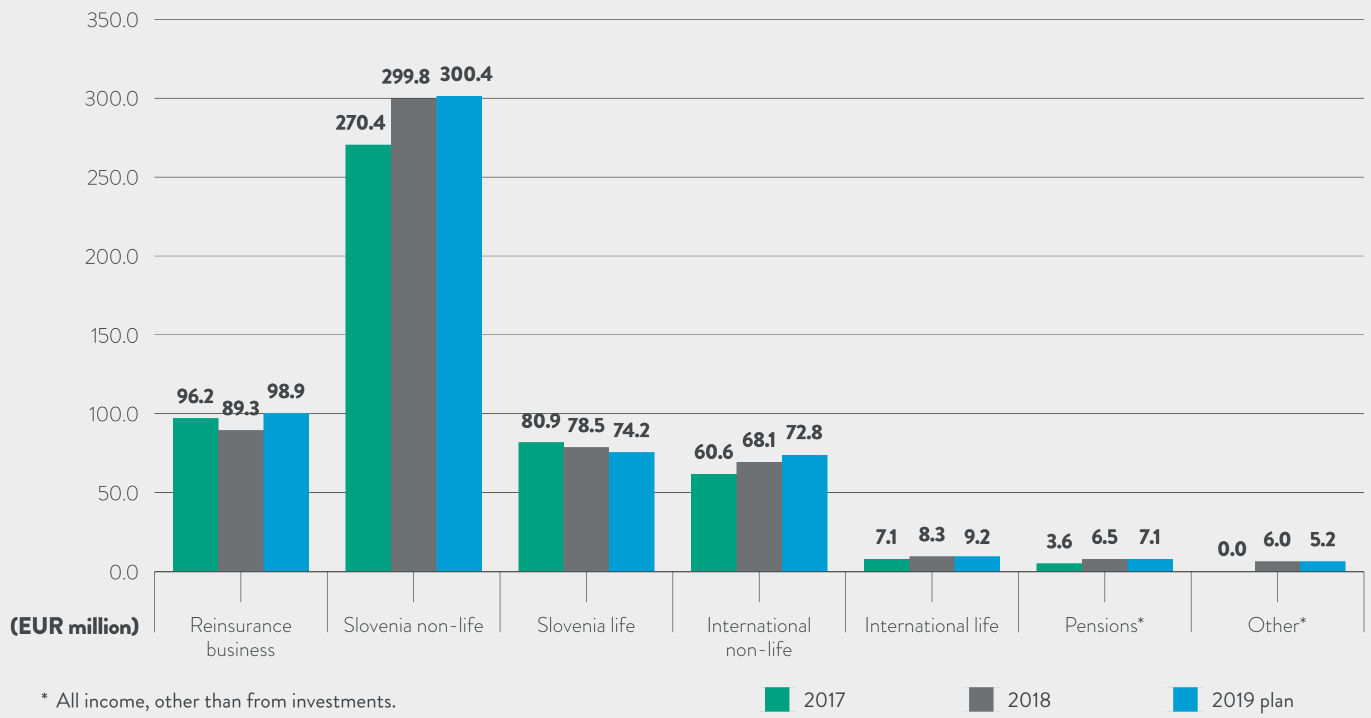
[24] When calculating the combined ratio based on the planning financial statements for Sava Re, it is necessary to exclude part of the expenses relating to the administration of the Group that are not related to reinsurance business.

## 6.4 Plans of the Sava Re Group for 2019

### Key targets for 2019

| (EUR million) | 2017 | 2018 | 2019 plan | Index/difference in p.p. P2019/18 |
|---|---|---|---|---|
| **Sava Re Group** | | | | |
| All income, other than from investments | 492.4 | 540.5 | > 535 | 99.0 |
| Profit or loss, net of tax | 31.1 | 43.0 | at least 43.0 | 100.0 |
| Return on equity | 10.1% | 13.1% | > 12% | -1.1 p.p. |
| Investment return, excluding the effect of exchange differences | 2.0% | 1.7% | 1.7% | 0.0 p.p. |
| **(Re)insurance part** | | | | |
| Gross premiums written | 517.2 | 546.3 | > 555 | 101.6 |
| Net premiums earned | 470.9 | 504.7 | > 515 | 102.0 |
| Net expense ratio (reins. + non-life + life) | 32.6% | 33.1% | 32.4-33.0% | -0.1 p.p. |
| Net incurred loss ratio, excluding the effect of exchange differences (reins. + non-life) | 60.5% | 57.0% | 59.2-59.7% | 2.7 p.p. |
| Net combined ratio, excluding the effect of exchange differences (reins. + non-life) | 95.6% | 92.9% | 93.6-94.1% | 1.2 p.p. |

### Target gross premiums written of insurance companies and income of non-insurance companies (Sava Re Group)




* All income, other than from investments.

### Insurance business

Client focus, digitisation of operations, development of innovative services and insurance products, assistance services in connection with insurance products, preparing for implementation of IFRSs 9 and 17.

### Reinsurance business

Planned growth in new markets, partly as a result of writing more business following the improved credit rating in 2018, and preparing for implementation of IFRSs 9 and 17.

### Pensions

Active approach to the marketing and promotion of increasing individuals' contributions to pension funds.

### Ancillary services

Development of the assistance segment in Slovenia as well as in other markets; health and home assistance in addition to motor assistance.

### Capital growth and utilisation

Exploring new growth opportunities (in line with the strategy) in insurance markets and ancillary business viewed by clients as additional services.

# 7 Business environment

## Slovenia[25]

### Major economic indicators for Slovenia

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Real change in GDP (%)** | 3.0 | 2.3 | 3.1 | 4.9 | 4.4 |
| **GDP (EUR million)** | 37,603 | 38,863 | 40,357 | 43,000 | 45,742 |
| **Registered unemployment rate (%)** | 13.1 | 12.3 | 11.2 | 9.5 | 8.2 |
| **Average inflation (%)** | 0.2 | -0.5 | -0.1 | 1.4 | 1.8 |
| **Population (million)** | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| **GDP per capita (EUR)** | 17,906 | 18,506 | 19,218 | 20,476 | 21,782 |
| **Insurance premiums (EUR million)** | **1,937.6** | **1,975.4** | **2,020.4** | **2,176.8** | **2,343.5** |
| **- growth/decline in insurance premiums** | -2.1% | 2.0% | 2.3% | 7.7% | 7.7% |
| **Insurance premiums – non-life (EUR million)** | 1,402.2 | 1,409.4 | 1,449.7 | 1,529.3 | 1,636.0 |
| **- growth/decline in non-life insurance premiums** | -1.7% | 0.5% | 2.9% | 5.5% | 7.0% |
| **Insurance premiums – life (EUR million)** | 535.4 | 565.9 | 570.7 | 647.5 | 707.6 |
| **- growth/decline in life insurance premiums** | -3.1% | 5.7% | 0.8% | 13.5% | 9.3% |
| **Insurance premiums per capita (EUR)** | **922.6** | **940.6** | **962.1** | **1,036.6** | **1,116.0** |
| **Non-life insurance premiums per capita (EUR)** | 667.7 | 671.2 | 690.3 | 728.2 | 779.0 |
| **Life insurance premiums per capita (EUR)** | 254.9 | 269.5 | 271.8 | 308.3 | 336.9 |
| **Premiums/GDP (%)** | **5.2** | **5.1** | **5.0** | **5.1** | **5.1** |
| **Non-life premiums/GDP (%)** | 3.7 | 3.6 | 3.6 | 3.6 | 3.6 |
| **Life premiums/GDP (%)** | 1.4 | 1.5 | 1.4 | 1.5 | 1.5 |
| **Average monthly net salary (EUR)** | 1,009 | 1,013 | 1,030 | 1,062 | 1,086 |

Premiums for the years 2016–2018 are shown without the premiums of the branches of Adriatic Slovenica and Zavarovalnica Sava in Croatia.

[25] Source: UMAR, Economic Mirror, no. 1/2019, Statistical Office of the Republic of Slovenia, Slovenian Insurance Association.

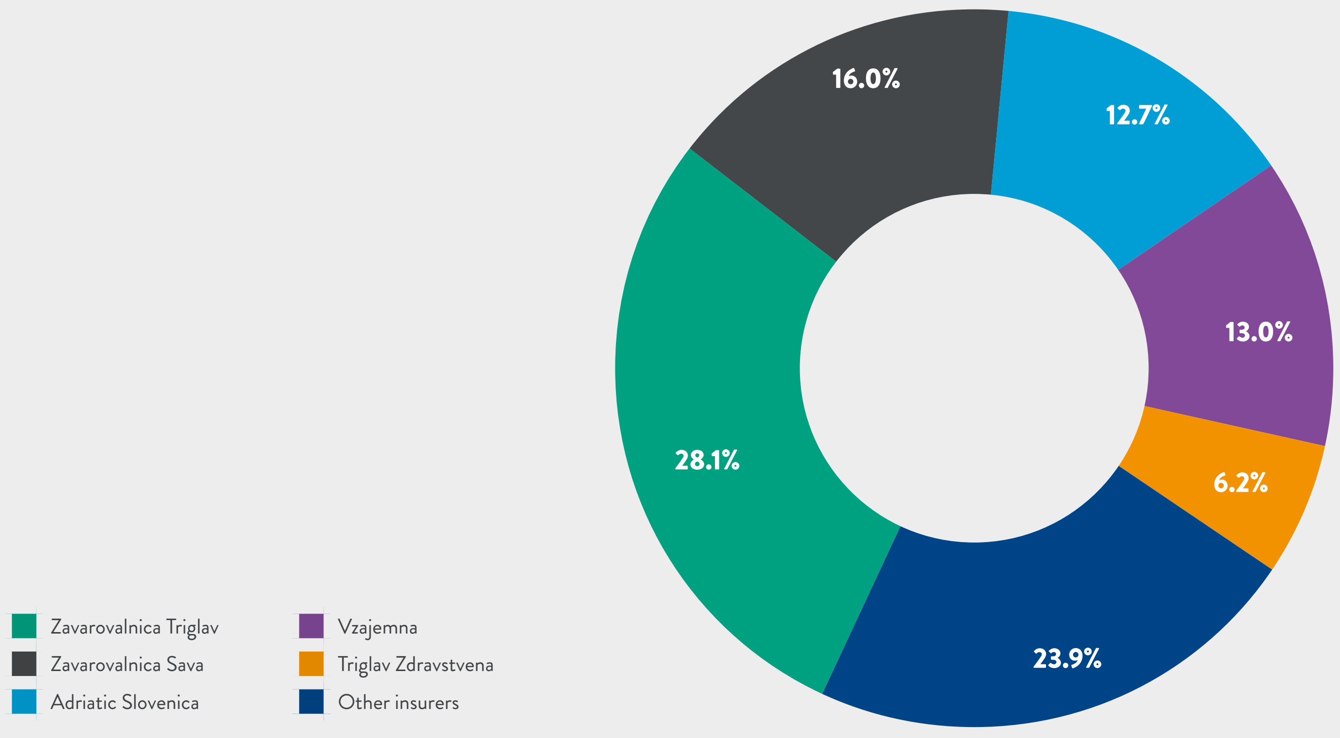
- Household disposable income increased further towards the end of 2018; at the same time, the proportion of disposable income saved continued to increase. The last quarter of 2018 saw further growth in the net wage bill, social transfers (including pensions) and new consumer loans. This encouraged households to increase spending in several segments (particularly in durable goods, and accommodation and food services). According to the statistical office of the Republic of Slovenia, an increasing proportion of disposable income is being saved. The saving rate, up 0.9 p.p. to 13.9% in 2017, rose by a further 1 p.p. year on year in the first three quarters of 2018. The saving rate in Slovenia is indeed among the highest in the EU[26].
- Economic sentiment improved slightly in the last months of 2018 but remained lower year on year due to the deterioration in the first half of the year. Particularly confidence in manufacturing and consumer confidence improved in the last few months, following earlier deterioration. Confidence in other activities reached similar levels year on year at the year end.
- The number of employed persons continued to rise relatively rapidly, despite ever greater shortages of appropriately skilled workers. Difficulties in finding workers on the domestic labour market are reflected in increasing hiring of foreign nationals. These already account for more than one-half (in October 57%) of the growth in the total number of employed persons and around one-tenth of all employed persons. Growth in the number of employed persons is also attributable to the rapid increase in labour market participation; this is also due to the inclusion of those who thus far had not been actively seeking employment. The number of registered unemployed persons continued to decline, though amid more moderate growth in employment from unemployment than in 2017. A total of 78,534 persons were registered as unemployed at the end of December, on average 78,474 in 2018. This translates into a rate of 7.7%, 11.5% less than one year earlier.
- In the first ten months of 2018, year-on-year wage growth (3.4%) was higher than in the same period of 2017 (2.3%), particularly in the private sector. Wage growth in the private sector is driven by relatively low unemployment, steady productivity growth and good business results. Wages increased the most year on year in construction, accommodation and food service activities, and administrative support service activities. Reflecting the agreements reached with trade unions in 2016, wage growth in the general government sector was somewhat lower than in 2017, particularly in the last months, when the effects of these agreements were petering out. In public corporations, where wage formation is somewhat more autonomous and linked to business performance, wage growth was higher than in 2017, which also contributed to higher total wage growth in the public sector.
- Consumer price growth fell markedly in December (to 1.4%); in 2018 as a whole it was somewhat higher than one year earlier (at 1.7%). For the most part of the year, inflation was mainly contributed to by higher prices of oil products and food, in addition to higher costs of services. At the end of the year, the contribution of these fell significantly, because of which consumer price growth fell considerably year on year. Prices of semi-durable and durable goods continued to fall, the latter mostly owing to lower car prices. Influenced by favourable developments in the economy, year-on-year price growth in services continued to strengthen moderately, reaching 3% by the end of the year. This contributed to somewhat higher core inflation, which was at 1.2% in December. The harmonised index of consumer prices, which is used for international comparisons, also indicates 1.4% inflation in December 2018, 0.2 p.p.s lower than inflation in the euro area.

**All group companies maintained their market shares.**

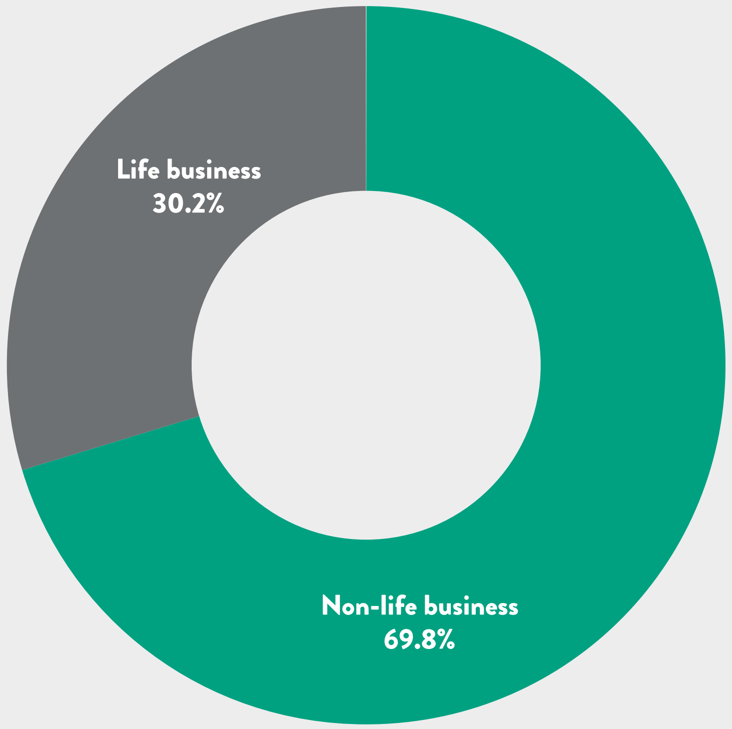
[26] Of 25 EU countries, only Luxembourg, Sweden, Germany and the Netherlands had a higher saving rate than Slovenia in 2017; the average for the EU-28 was 9.7%.

## Slovenian insurance market[27]

**Slovenian insurance market 2018**

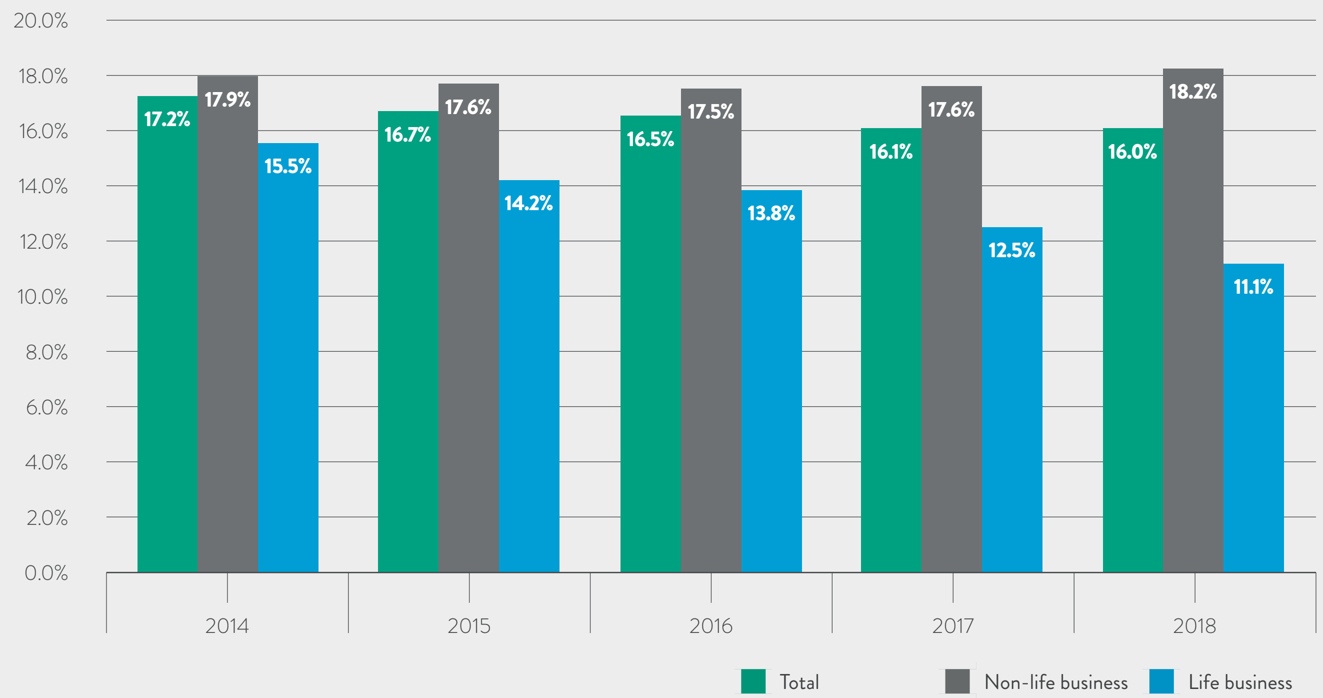



**Breakdown of premiums in the Slovenian insurance market in 2018**




[27] Source: Slovenian Insurance Association. Market shares are calculated excluding the premiums of the branches of Adriatic Slovenica and Zavarovalnica Sava in Croatia.

## Market shares of Zavarovalnica Sava in the Slovenian insurance market[28]




## Premiums and market shares in the Slovenian reinsurance market[29]

| (EUR) | 2018 | | 2017 | |
|---|---|---|---|---|
| | Gross premiums written | Market share | Gross premiums written | Market share |
| Sava Re | 151,636,216 | 53.6% | 153,219,752 | 55.3% |
| Triglav Re | 131,170,639 | 46.4% | 123,713,912 | 44.7% |
| **Total** | **282,806,855** | **100.0%** | **276,933,664** | **100.0%** |

[28] Source: Slovenian Insurance Association.
[29] Source: internal data of Sava Re and Triglav Re.

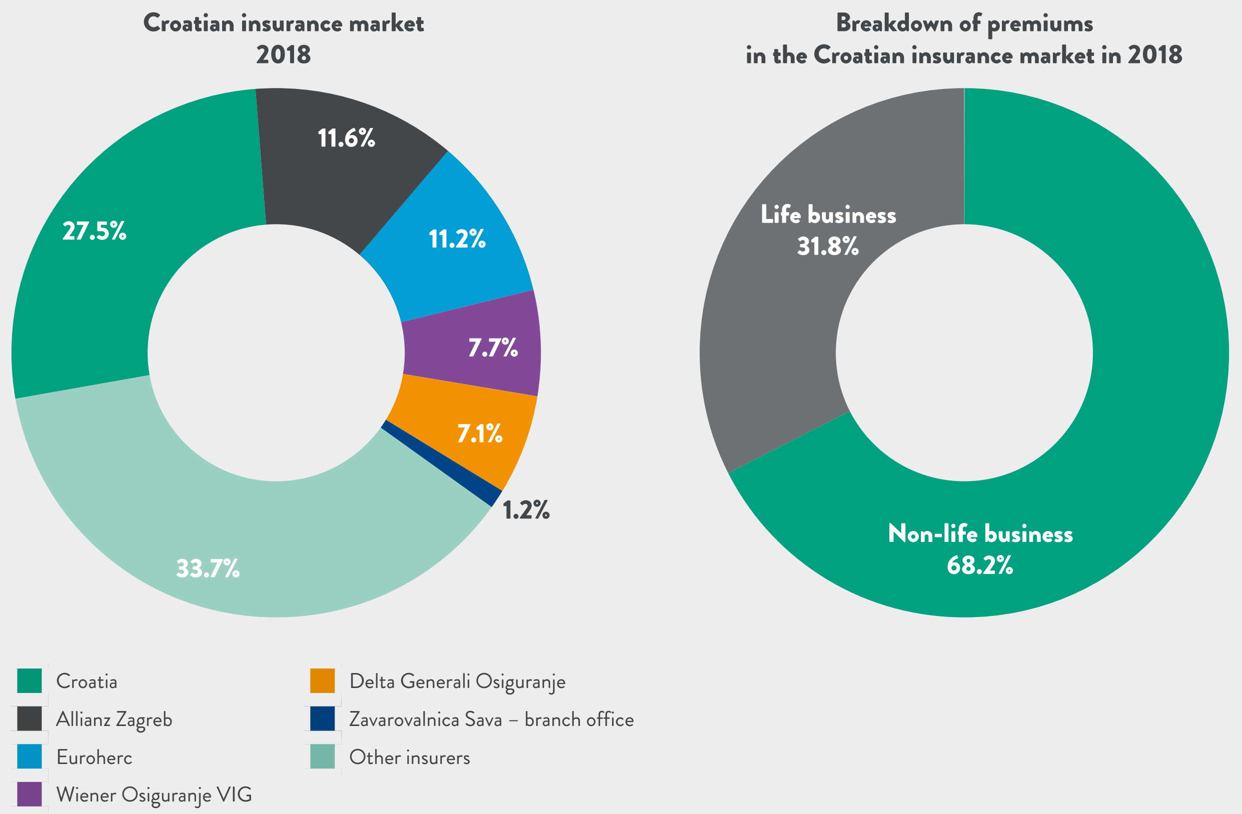
# Croatia[30]

### Major economic indicators for Croatia

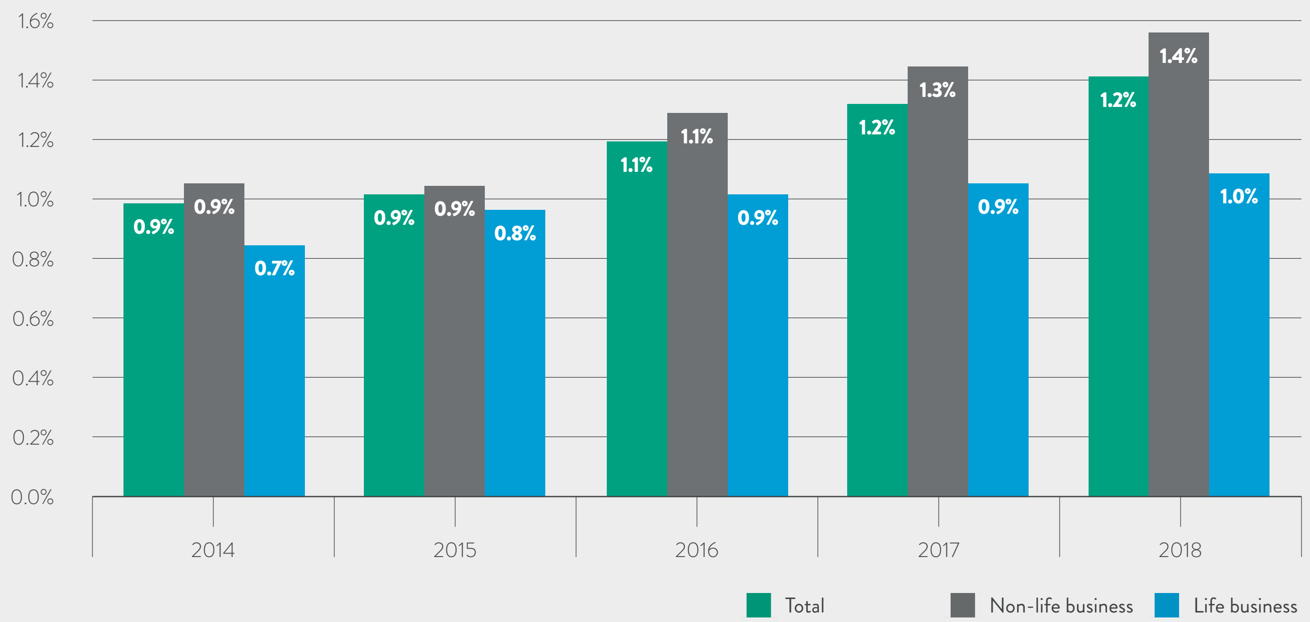
| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Real change in GDP (%) | -0.1 | 2.4 | 3.5 | 2.9 | 2.8 |
| GDP (EUR million) | 43,431 | 44,606 | 46,639 | 48,990 | 51,243 |
| Registered unemployment rate (%) | 17.3 | 17.0 | 14.8 | 12.1 | 9.4 |
| Average inflation (%) | -0.2 | -0.5 | -1.1 | 1.1 | 1.5 |
| Population (million) | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| GDP per capita (EUR) | 10,248 | 10,610 | 11,182 | 11,664 | 12,201 |
| Insurance premiums (EUR million) | **1,121.4** | **1,146.0** | **1,167.6** | **1,231.0** | **1,350.0** |
| - growth/decline in insurance premiums | -6.4% | 2.2% | 1.9% | 5.4% | 9.7% |
| Insurance premiums – non-life (EUR million) | 775.9 | 760.5 | 777.1 | 831.1 | 920.7 |
| - growth/decline in non-life insurance premiums | -10.1% | -2.0% | 2.2% | 6.9% | 10.8% |
| Insurance premiums – life (EUR million) | 345.5 | 385.5 | 390.5 | 400.0 | 429.3 |
| - growth/decline in life insurance premiums | 3.2% | 11.6% | 1.3% | 2.4% | 7.3% |
| Insurance premiums per capita (EUR) | **264.6** | **272.6** | **279.9** | **293.1** | **321.4** |
| Non-life insurance premiums per capita (EUR) | 183.1 | 180.9 | 186.3 | 197.9 | 219.2 |
| Life insurance premiums per capita (EUR) | 81.5 | 91.7 | 93.6 | 95.2 | 102.2 |
| Premiums/GDP (%) | **2.6** | **2.6** | **2.5** | **2.5** | **2.6** |
| Non-life premiums/GDP (%) | 1.8 | 1.7 | 1.7 | 1.7 | 1.8 |
| Life premiums/GDP (%) | 0.8 | 0.9 | 0.8 | 0.8 | 0.8 |
| Average monthly net salary (EUR) | 725 | 750 | 755 | 802 | 834 |
| Exchange rate (HRK/EUR) | 7.634 | 7.614 | 7.533 | 7.464 | 7.418 |

[30] Source: Croatian Chamber of Commerce and Industry, EMIS database, Croatian Insurance Supervision Agency.

### Croatian insurance market[31]




### Market shares of Zavarovalnica Sava in the Croatian insurance market[32]




[31] Source: Croatian Insurance Bureau.
[32] Source: Croatian Insurance Bureau.

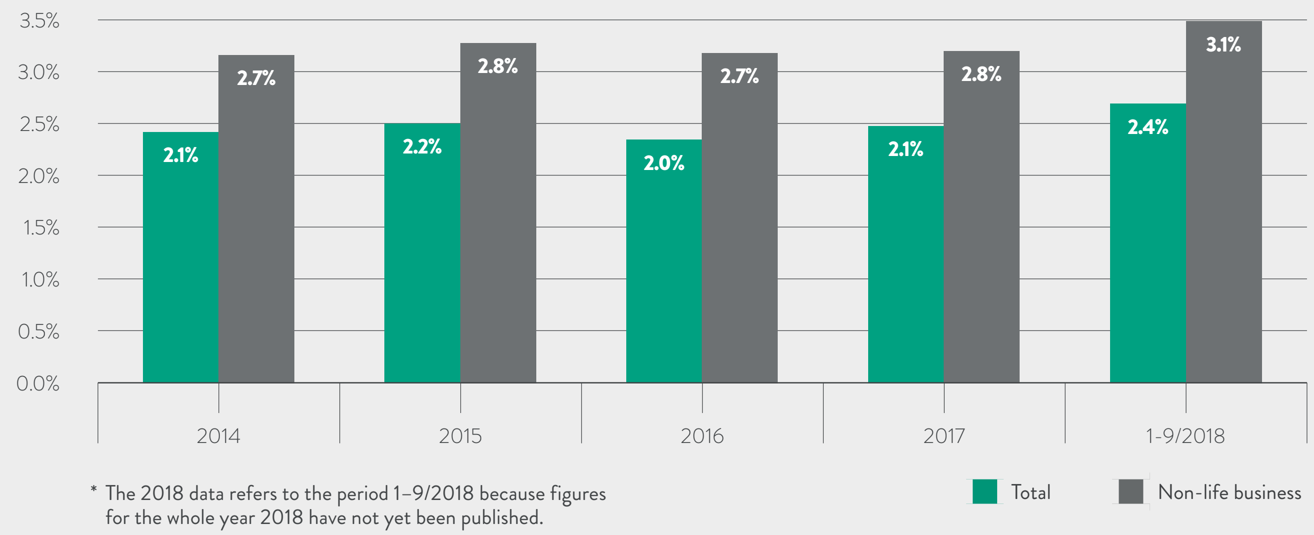
## Serbia[33]

### Major economic indicators for Serbia

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Real change in GDP (%)** | -1.8 | 0.8 | 2.8 | 1.8 | 4.0 |
| **GDP (RSD million)** | 3,685,457 | 3,954,368 | 4,117,150 | 4,321,128 | 4,753,005 |
| **GDP (EUR million)** | 31,535 | 32,800 | 33,500 | 35,600 | 40,164 |
| **Registered unemployment rate (%)** | 20.1 | 18.2 | 15.9 | 13.5 | 16.0 |
| **Average inflation (%)** | 2.1 | 1.4 | 1.1 | 3.1 | 2.6 |
| **Population (million)** | 7.2 | 7.1 | 7.1 | 7.0 | 7.0 |
| **GDP per capita (EUR)** | 4,380 | 4,620 | 4,718 | 5,086 | 5,746 |
| **Insurance premiums (EUR million)** | **593.9** | **671.2** | **725.3** | **767.0** | **815.0** |
| **- growth/decline in insurance premiums** | 4.7% | 13.0% | 8.1% | 5.7% | 6.3% |
| **Insurance premiums – non-life (EUR million)** | 456.9 | 510.6 | 537.1 | 579.5 | 620.0 |
| **- growth/decline in non-life insurance premiums** | 3.3% | 11.8% | 5.2% | 7.9% | 7.0% |
| **Insurance premiums – life (EUR million)** | 136.9 | 160.6 | 188.2 | 187.5 | 195.0 |
| **- growth/decline in life insurance premiums** | 10.0% | 17.3% | 17.2% | -0.4% | 4.0% |
| **Insurance premiums per capita (EUR)** | **82.5** | **94.5** | **102.2** | **109.6** | **116.6** |
| **Non-life insurance premiums per capita (EUR)** | 63.5 | 71.9 | 75.6 | 82.8 | 88.7 |
| **Life insurance premiums per capita (EUR)** | 19.0 | 22.6 | 26.5 | 26.8 | 27.9 |
| **Premiums/GDP (%)** | **1.9** | **2.0** | **2.2** | **2.2** | **2.0** |
| **Non-life premiums/GDP (%)** | 1.4 | 1.6 | 1.6 | 1.6 | 1.5 |
| **Life premiums/GDP (%)** | 0.4 | 0.5 | 0.6 | 0.5 | 0.5 |
| **Average monthly net salary (RSD)** | 44,530 | 44,437 | 45,862 | 47,888 | 47,336.0 |
| **Average monthly net salary (EUR)** | 381 | 369 | 373 | 395 | 400 |
| **Exchange rate (RSD/EUR)** | 116.9 | 120.6 | 122.9 | 121.4 | 118.3 |

* The 2018 insurance premiums are estimates because figures for the whole year 2018 have not yet been published.

### Market shares of Sava Neživotno Osiguranje

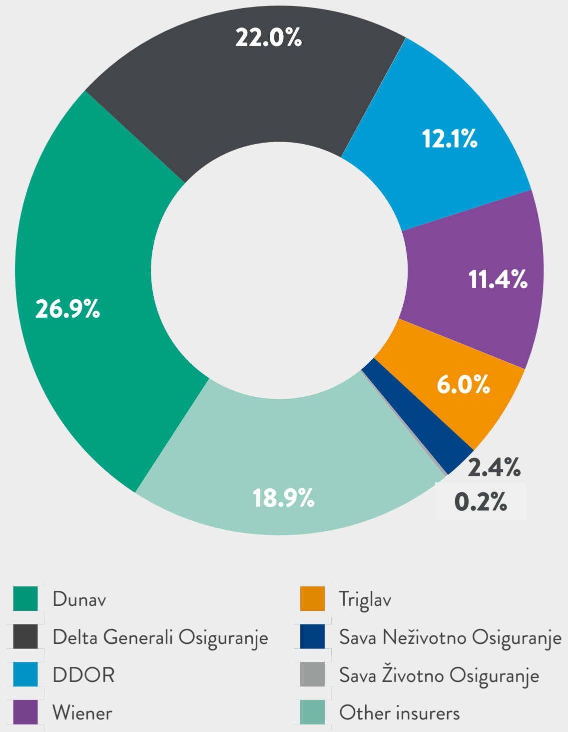



* The 2018 data refers to the period 1–9/2018 because figures for the whole year 2018 have not yet been published.

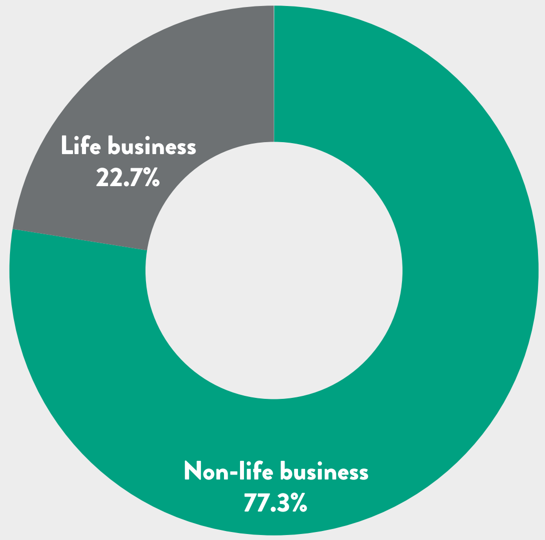
[33] Source: MMF, World Economic Outlook, National Bank of Serbia.

### Serbian insurance market[34]

**Serbian insurance market 1–9/2018**



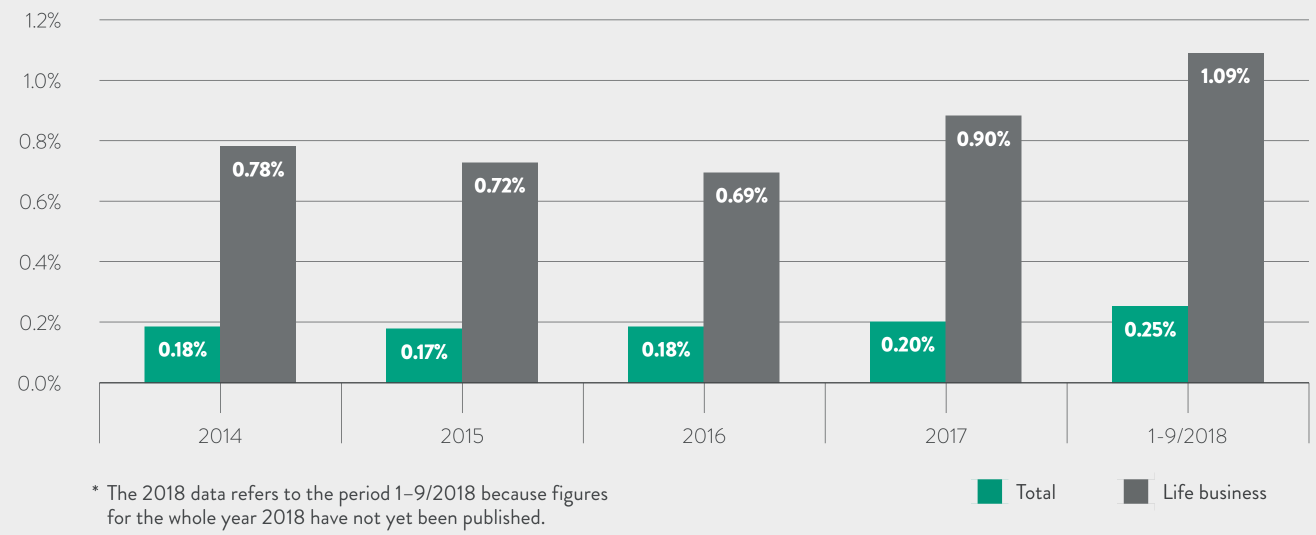

**Breakdown of premiums in the Serbian insurance market 1–9/2018**




* The 2018 data refers to the period 1–9/2018 because figures for the whole year 2018 have not yet been published.

### Market shares of Sava Neživotno Osiguranje (SRB) and Sava Životno Osiguranje (SRB) in the Serbian insurance market[35]

### Market shares of Sava Životno Osiguranje




* The 2018 data refers to the period 1–9/2018 because figures for the whole year 2018 have not yet been published.

[34] Source: Serbian National Bank.
[35] Source: Serbian National Bank.

## North Macedonia[36]

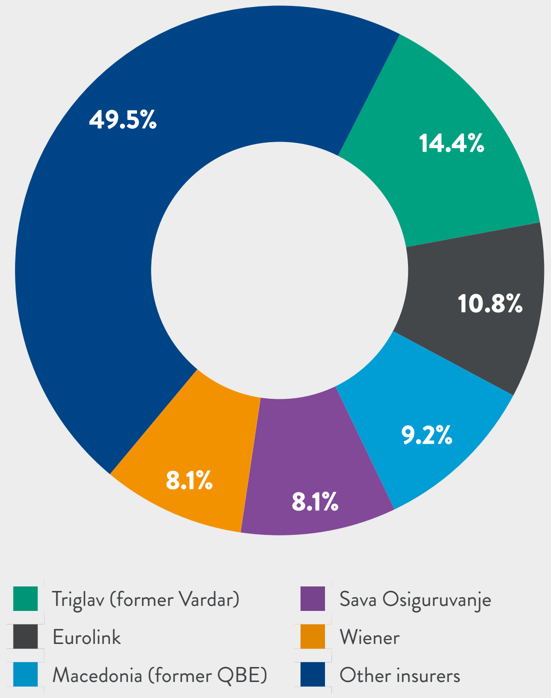
### Major economic indicators for North Macedonia

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Real change in GDP (%)** | 3.6 | 3.9 | 2.9 | 0.0 | 2.3 |
| **GDP (MKD million)** | 527,631 | 558,240 | 607,452 | 633,846 | 662,660 |
| **GDP (EUR million)** | 8,571 | 9,076 | 9,859 | 10,313 | 10,754 |
| **Registered unemployment rate (%)** | 28.0 | 26.1 | 23.6 | 22.4 | 21.1 |
| **Average inflation (%)** | -0.3 | -0.3 | -0.2 | 1.4 | 1.7 |
| **Population (million)** | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| **GDP per capita (EUR)** | 4,081 | 4,322 | 4,695 | 4,911 | 5,121 |
| **Insurance premiums (EUR million)** | **123.9** | **134.5** | **141.5** | **146.3** | **161.1** |
| **- growth/decline in insurance premiums** | 6.7% | 8.5% | 5.3% | 3.4% | 10.1% |
| **Insurance premiums – non-life (EUR million)** | 109.5 | 116.7 | 120.6 | 122.8 | 134.0 |
| **- growth/decline in non-life insurance premiums** | 4.9% | 6.6% | 3.3% | 1.8% | 9.1% |
| **Insurance premiums – life (EUR million)** | 14.4 | 17.8 | 21.0 | 23.5 | 27.1 |
| **- growth/decline in life insurance premiums** | 22.6% | 23.2% | 17.9% | 12.2% | 15.2 |
| **Insurance premiums per capita (EUR)** | **59.0** | **64.0** | **67.4** | **69.7** | **76.7** |
| **Non-life insurance premiums per capita (EUR)** | 52.1 | 55.6 | 57.4 | 58.5 | 63.8 |
| **Life insurance premiums per capita (EUR)** | 6.9 | 8.5 | 10.0 | 11.2 | 12.9 |
| **Premiums/GDP (%)** | **1.4** | **1.5** | **1.4** | **1.4** | **1.5** |
| **Non-life premiums/GDP (%)** | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 |
| **Life premiums/GDP (%)** | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| **Average monthly net salary (EUR)** | 336 | 345 | 353 | 388 | 394 |
| **Exchange rate (MKD/EUR)** | 61.561 | 61.510 | 61.616 | 61.458 | 61.618 |

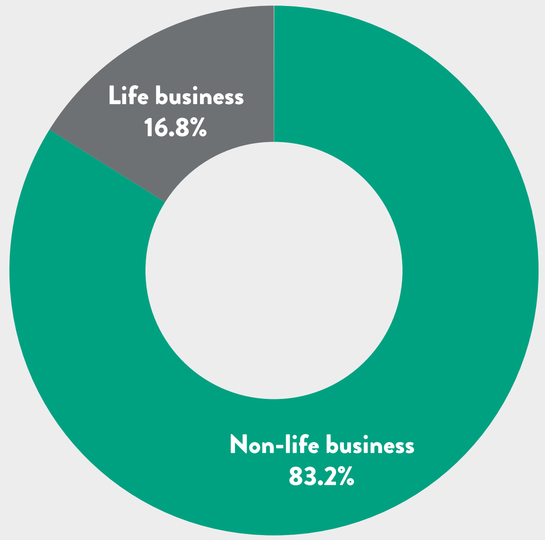
* The 2018 insurance premiums are preliminary figures.

### North Macedonian insurance market[37]

North Macedonian insurance market 2018

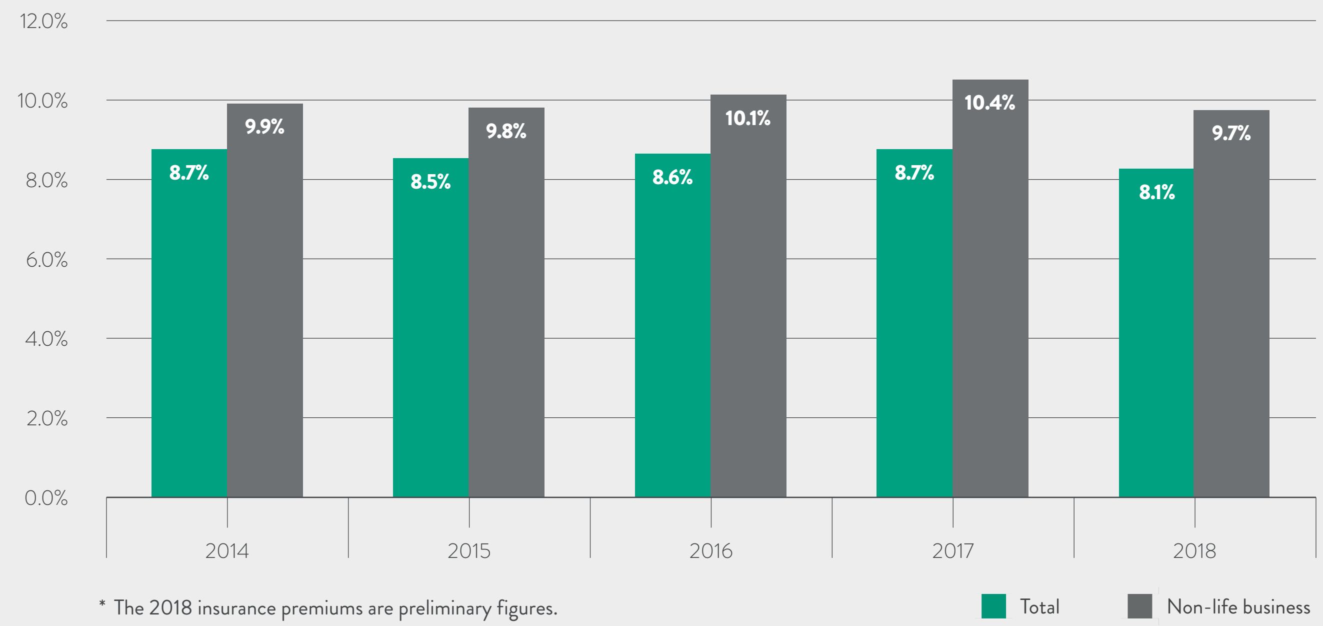



Breakdown of premiums in the North Macedonian insurance market in 2018




* The 2018 insurance premiums are preliminary figures.

### Market shares of Sava Osiguruvanje (MKD) in the North Macedonian insurance market[38]




* The 2018 insurance premiums are preliminary figures.

[36] Source: NBRM, estimates of Sava Osiguruvanje (MKD), National Insurance Bureau of North Macedonia.

[37] Source: National Insurance Bureau of the Republic of Macedonia.

[38] Source: National Insurance Bureau of the Republic of Macedonia.

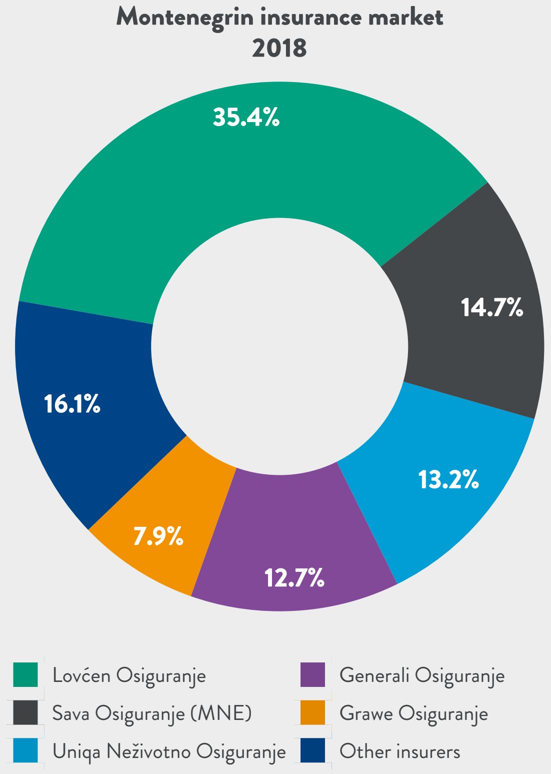
## Montenegro[39]

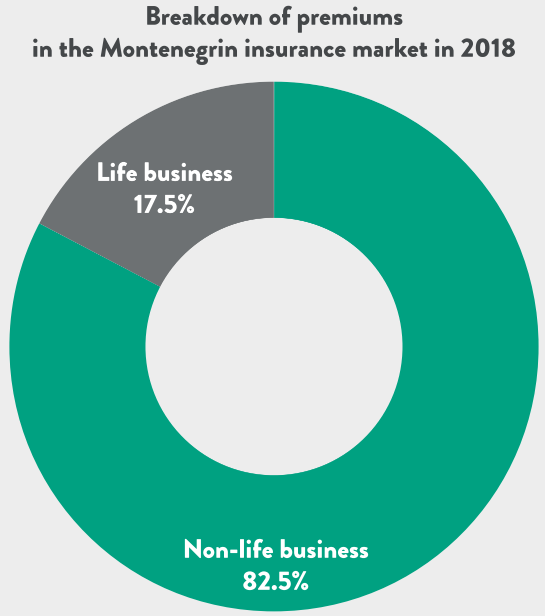
### Major economic indicators for Montenegro

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Real change in GDP (%) | 1.8 | 3.4 | 2.9 | 4.7 | 4.1 |
| GDP (EUR million) | 3,458 | 3,655 | 3,954 | 4,299 | 4,605 |
| Registered unemployment rate (%) | 18.0 | 17.6 | 17.7 | 16.1 | 14.8 |
| Average inflation (%) | -0.7 | 1.5 | -0.3 | 2.4 | 2.6 |
| Population (million) | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| GDP per capita (EUR) | 5,561 | 5,874 | 6,354 | 6,907 | 7,388 |
| Insurance premiums (EUR million) | **72.4** | **81.8** | **80.1** | **81.8** | **86.8** |
| - growth/decline in insurance premiums | -0.5% | 12.9% | -2.0% | 2.0% | 6.2% |
| Insurance premiums – non-life (EUR million) | 59.9 | 67.6 | 66.5 | 67.6 | 71.6 |
| - growth/decline in non-life insurance premiums | -3.3% | 13.0% | -1.7% | 1.7% | 5.9% |
| Insurance premiums – life (EUR million) | 12.6 | 14.2 | 13.7 | 14.2 | 15.2 |
| - growth/decline in life insurance premiums | 15.5% | 12.8% | -3.4% | 3.5% | 7.3% |
| Insurance premiums per capita (EUR) | **116.4** | **131.4** | **128.8** | **131.4** | **139.3** |
| Non-life insurance premiums per capita (EUR) | 96.3 | 108.6 | 106.8 | 108.6 | 114.9 |
| Life insurance premiums per capita (EUR) | 20.2 | 22.8 | 22.0 | 22.8 | 24.4 |
| Premiums/GDP (%) | **2.1** | **2.2** | **2.0** | **1.9** | **1.9** |
| Non-life premiums/GDP (%) | 1.7 | 1.8 | 1.7 | 1.6 | 1.6 |
| Life premiums/GDP (%) | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Average monthly net salary (EUR) | 477 | 480 | 499 | 510 | 511 |

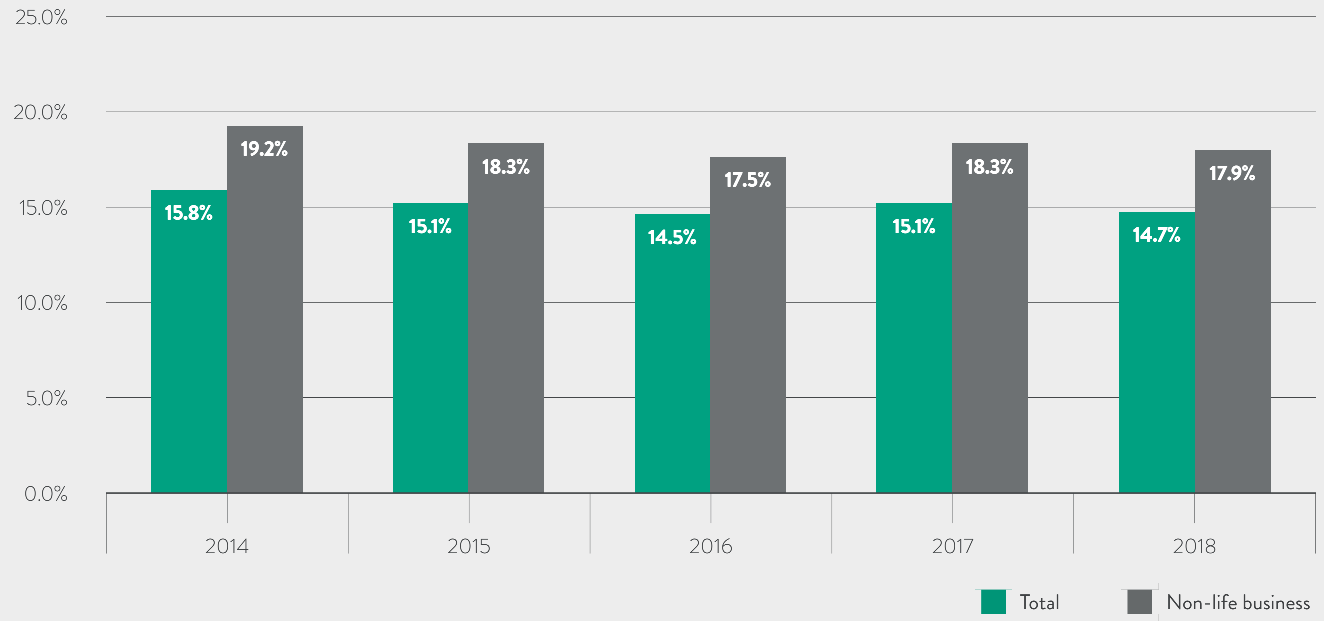
[39] Source: Statistical bureau of Montenegro (published data for 2014–2017), Government of Montenegro: Programme of economic reforms for Montenegro 2019–2021, January 2019 (estimated data for GDP, unemployment rate and population for 2018); Montenegrin insurance regulator.

### Montenegrin insurance market[40]




### Market shares of Sava Osiguranje (MNE) in the Montenegrin insurance market[41]




[40] Source: Insurance Supervisor of Montenegro.
[41] Source: Insurance Supervisor of Montenegro.

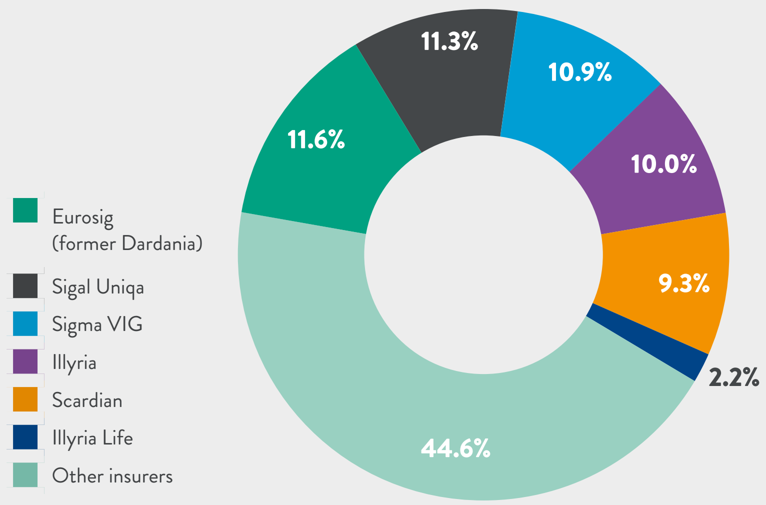
# Kosovo[42]

### Major economic indicators for Kosovo

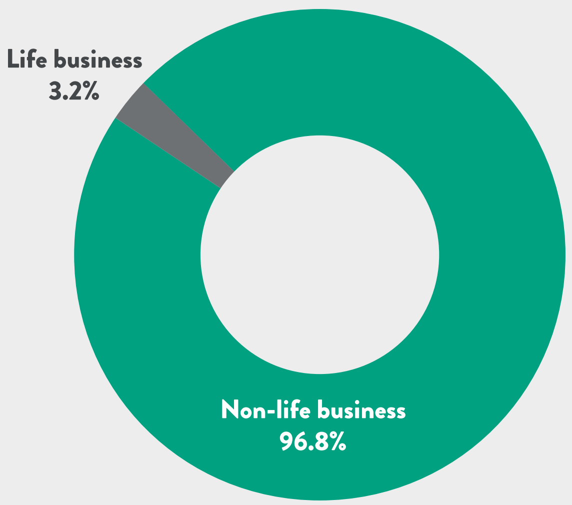
| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Real change in GDP (%) | 1.2 | 4.1 | 4.1 | 4.1 | 4.6 |
| GDP (EUR million) | 5,392 | 5,796 | 6,043 | 6,327 | 6,674 |
| Registered unemployment rate (%) | 35.3 | 32.9 | 27.5 | 30.5 | n/a |
| Average inflation (%) | 0.4 | -0.5 | 0.3 | 1.4 | 1.1 |
| Population (million) | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| GDP per capita (EUR) | 2,927 | 3,153 | 3,286 | 3,515 | 3,708 |
| Insurance premiums (EUR million) | **82.5** | **81.4** | **83.8** | **87.4** | **93.5** |
| - growth/decline in insurance premiums | 3.8% | -1.3% | 2.9% | 4.4% | 6.9% |
| Insurance premiums – non-life (EUR million) | 80.1 | 78.7 | 81.2 | 84.9 | 90.5 |
| - growth/decline in non-life insurance premiums | 3.5% | -1.7% | 3.2% | 4.6% | 6.6% |
| Insurance premiums – life (EUR million) | 2.4 | 2.7 | 2.6 | 2.5 | 3.0 |
| - growth/decline in life insurance premiums | 16.5% | 12.5% | -4.3% | -2.2% | 16.7% |
| Insurance premiums per capita (EUR) | 44.8 | 44.3 | 45.6 | 48.6 | 51.9 |
| Premiums/GDP (%) | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 |
| Average monthly net salary (EUR) | 430 | 451 | 457 | 471 | n/a |

### Kosovan insurance market[43]

**Breakdown of premiums in the Kosovan insurance market in 2018**

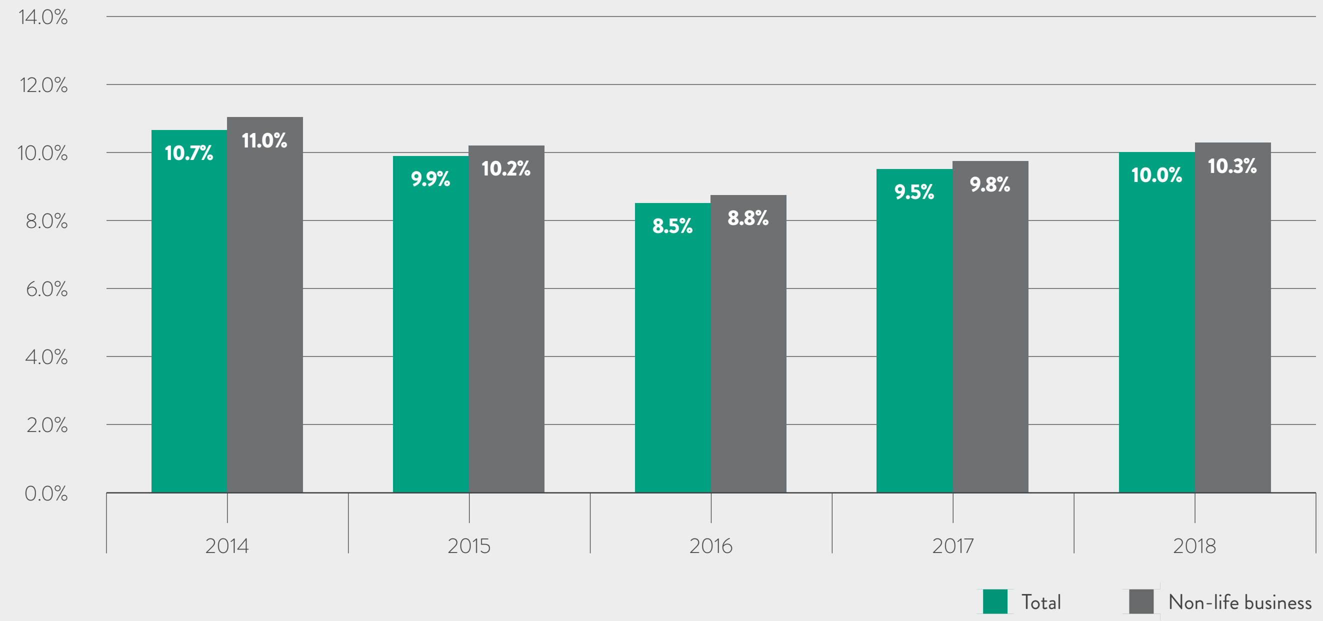



**Kosovan insurance market 2018**

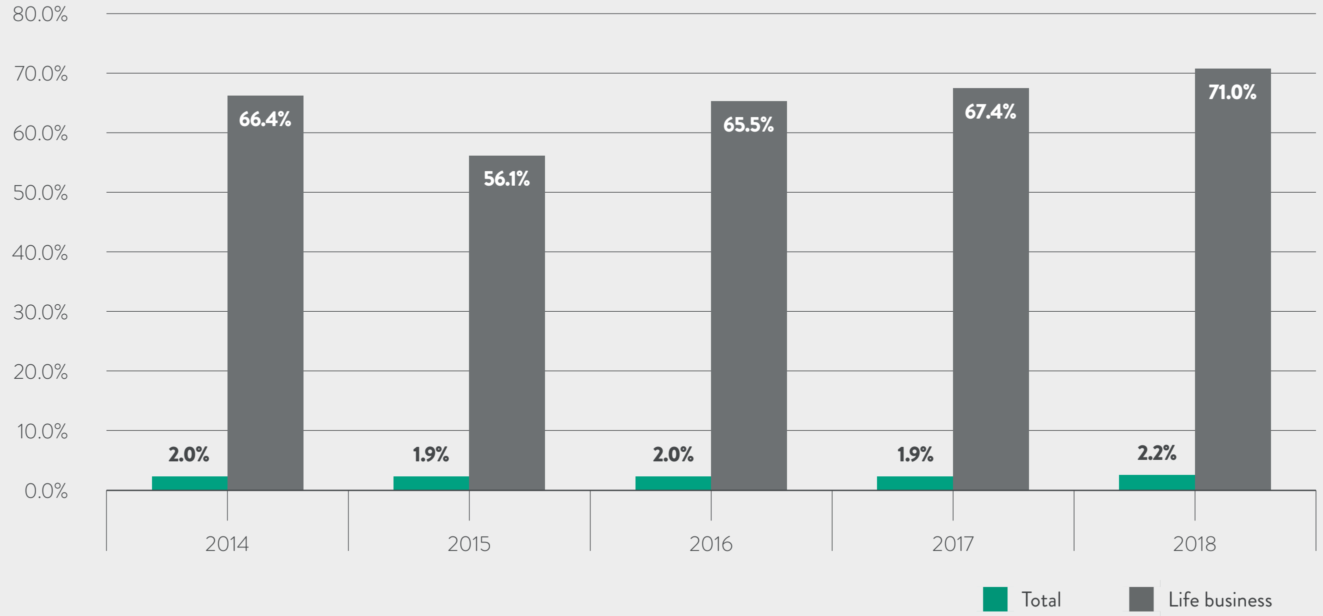



### Market shares of Illyria and Illyria Life in the Kosovan insurance market[44]

**Market shares of Illyria**




**Market shares of Illyria Life**




[42] Source: Central Bank of the Republic of Kosovo, www.imf.org.
[43] Source: Central Bank of the Republic of Kosovo.

[44] Source: Central Bank of the Republic of Kosovo.

# 8 Sava Re Group review of operations and financial result[45]

**Business is presented by operating segments: reinsurance, non-life, life, pensions and other. The non-life and life segments are further broken down by geography (Slovenia and international).**

The operating segments include the following companies:

- reinsurance: Sava Re, 30% of Sava Terra;
- non-life, Slovenia: Zavarovalnica Sava (Slovenian part), 70% of Sava Terra;
- non-life, international: Zavarovalnica Sava (Croatian part), Sava Neživotno Osiguranje (SRB), Illyria, Sava Osiguranje (MNE), Sava Osiguruvanje (MKD), Illyria Hospital, Sava Car, Sava Agent, Sava Station;
- life, Slovenia: Zavarovalnica Sava (Slovenian part), ZS Svetovanje, Ornatus KC;
- life, international: Zavarovalnica Sava (Croatian part), Sava Životno Osiguranje (SRB), Illyria Life;
- pensions: Sava Pokojninska, Sava Penzisko Društvo;
- other: TBS Team 24, ZTSR (equity method), G2I (equity method).

[45] A glossary of selected insurance terms and calculation methods for ratios is appended to this annual report.

The segment reporting information also reflects reallocations of certain income statement items:

- The effects of reinsurance are transferred from the reinsurance segment to the other segments (Sava Re as the controlling company handles the reinsurance of most risks of the subsidiaries within the Sava Re Group): in the segment reporting information, reinsurance premiums received by the reinsurer from the subsidiaries are reallocated to the segment from where they originate (the same applies by analogy to reinsurance-related claims, commission income, change in unearned premiums, claims provisions and deferred acquisition costs). In the elimination process, the portion of business retroceded by Sava Re to foreign reinsurers is not allocated to the segments. Retrocession-related expenses usually exceed income (except in the case of catastrophe claims). In order to provide a more appropriate presentation of profitability by segment, the result of retroceded business is also allocated to the segment where it arose. All these items are adjusted only in the part relating to the risks of subsidiaries retroceded by Sava Re to foreign reinsurers.
- Other operating expenses relating to the reinsurance segment are reduced by the portion of expenses attributable to the administration of the Sava Re Group. Sava Re operates as a virtual holding company; hence a part of its expenses relates to the administration of the Group. Such expenses relating to the reinsurance segment are allocated to other segments based on gross premiums written. Such reallocation is also made for other operating expenses relating to intra-Group reinsurance transactions. In 2018, Sava Re allocated 65.6% of other operating expenses to operating segments as monitored by income composition (2017: 61.7%). Furthermore, operating expenses of TBS Team 24 incurred in its activities on behalf of other Group companies were reallocated from the "other" segment to the Slovenian and international non-life segments (2018: EUR 4.1 million, 2017: EUR 0). The same method is followed in the consolidation process when income is eliminated.
- Investment income and expenses are reallocated from the reinsurance segment to the non-life insurance and life insurance segments using the key for the apportionment of net technical provisions for the rolling year (average of past four quarters).

In the statement of financial position, the following adjustments are made in addition to the eliminations made in the consolidation process:

- Intangible assets – goodwill is allocated to the segment from which it arose (reallocated from the reinsurance segment to other segments depending on which subsidiary it relates to).
- The balance of financial investments is reallocated from the reinsurance segment to the non-life and life segments using the key for the apportionment of net technical provisions for the rolling year (average of past four quarters).
- The reinsurers' share of technical provisions (reinsurers' share of unearned premiums, claims provisions and other provisions) and deferred acquisition costs – in the same way as described in indent one of adjustments to income statement items.
- Equity is reallocated from the reinsurance segment to other segments based on the cost of investments in subsidiaries (the sum total of carrying amounts of non-life insurers is reallocated to the non-life segment, and that of life insurers is reallocated to the life insurance and other segments).

**by 2.7%**
**Net combined ratio improved**

**up 9.8%**
**Operating revenue**

TBS Team 24 was first consolidated in the Group financial statement on 31 January 2018, the companies Energoprojekt Garant and Sava Penzisko Društvo on 31 March 2018. Energoprojekt Garant was merged with Sava Neživotno Osiguranje (SRB) at year-end 2018. The acquisition of Sava Terra was completed in the third quarter of 2018. The Group became the sole owner of the company. The first consolidated accounts of the Sava Re Group after Sava Terra joined were prepared as at 31 December 2018.

Following is a brief commentary on the results of each operating segment.

**Summary consolidated income statement**

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Net earned premiums | 504,669,701 | 470,865,993 | 107.2 |
| Investment income | 26,802,161 | 27,446,915 | 97.7 |
| Net unrealised gains on investments of life insurance policyholders who bear the investment risk | 16,867,324 | 16,849,384 | 100.1 |
| Other technical income | 21,238,357 | 15,429,720 | 137.6 |
| Other income | 14,549,676 | 6,058,000 | 240.2 |
| - of which investment property | 1,233,614 | 514,115 | 239.9 |
| Net claims incurred | -320,760,586 | -296,103,320 | 108.3 |
| Change in other technical provisions | 13,207,584 | -2,179,849 | -605.9 |
| Change in technical provisions for policyholders who bear the investment risk | 15,962,680 | -1,121,328 | -1,423.6 |
| Expenses for bonuses and rebates | 288,628 | 5,848 | 4,935.5 |
| Operating expenses | -178,131,437 | -156,962,327 | 113.5 |
| Expenses relating to investments in associates | -151,130 | 0 | - |
| Expenses for financial assets and liabilities | -9,604,451 | -11,891,544 | 80.8 |
| Net unrealised losses on investments of life insurance policyholders who bear the investment risk | -23,498,245 | -8,256,416 | 284.6 |
| Other technical expenses | -23,305,829 | -17,486,080 | 133.3 |
| Other expenses | -2,873,861 | -2,774,013 | 103.6 |
| - of which investment property | -511,771 | -340,040 | 150.5 |
| Profit or loss before tax | 55,260,572 | 39,880,983 | 138.6 |

In 2018 operating revenues totalled EUR 540.5 million, up 9.8% year on year. Revenues increased thanks to higher income from non-life and reinsurance segments and partly because of the new companies that joined the Group. Below we give details on the major items of the consolidated income statement.

Net premiums earned and net claims incurred relating to reinsurance and insurance business account for more than 99% of the consolidated items. Given are consolidated net earned premiums and net claims incurred relating to all segments together, while consolidated operating expenses are given for the reinsurance and insurance segments.

## Consolidated net earned premiums

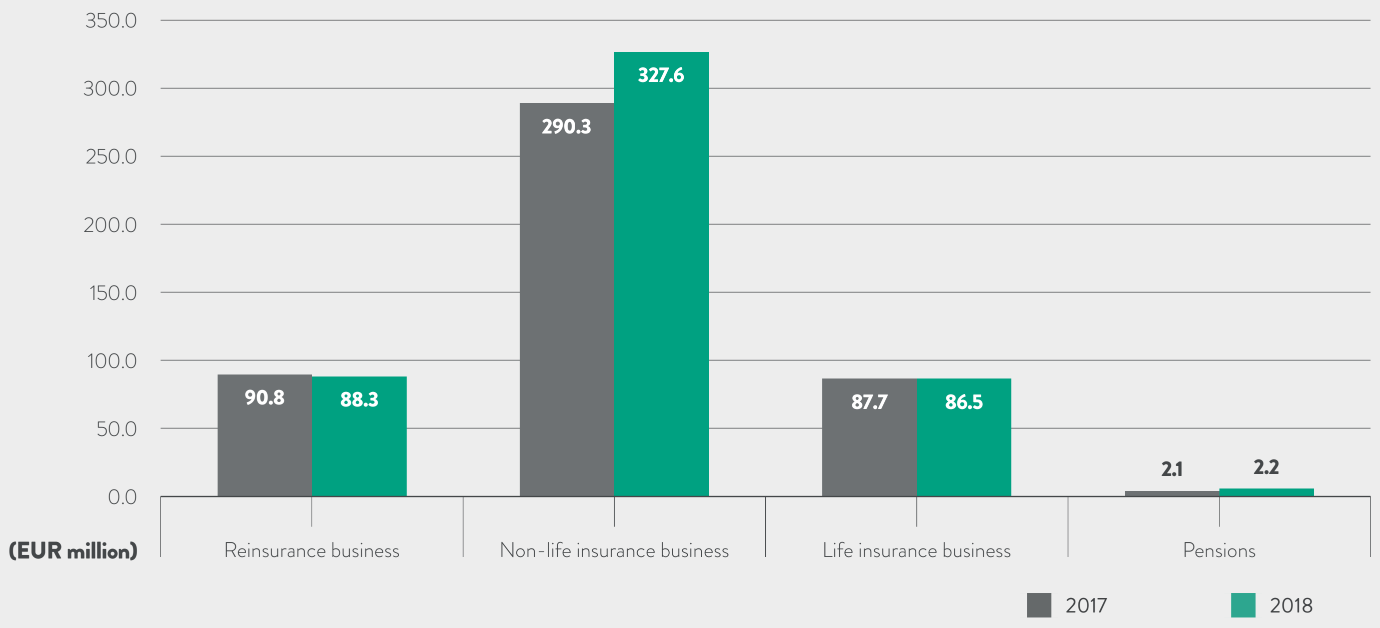
**Consolidated net earned premiums**

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross premiums written | 546,299,539 | 517,233,431 | 105.6 |
| Net premiums written | 519,356,687 | 482,990,135 | 107.5 |
| Change in net unearned premiums | -14,686,986 | -12,124,142 | 121.1 |
| Net earned premiums | 504,669,701 | 470,865,993 | 107.2 |

**Consolidated net earned premiums by class of business**

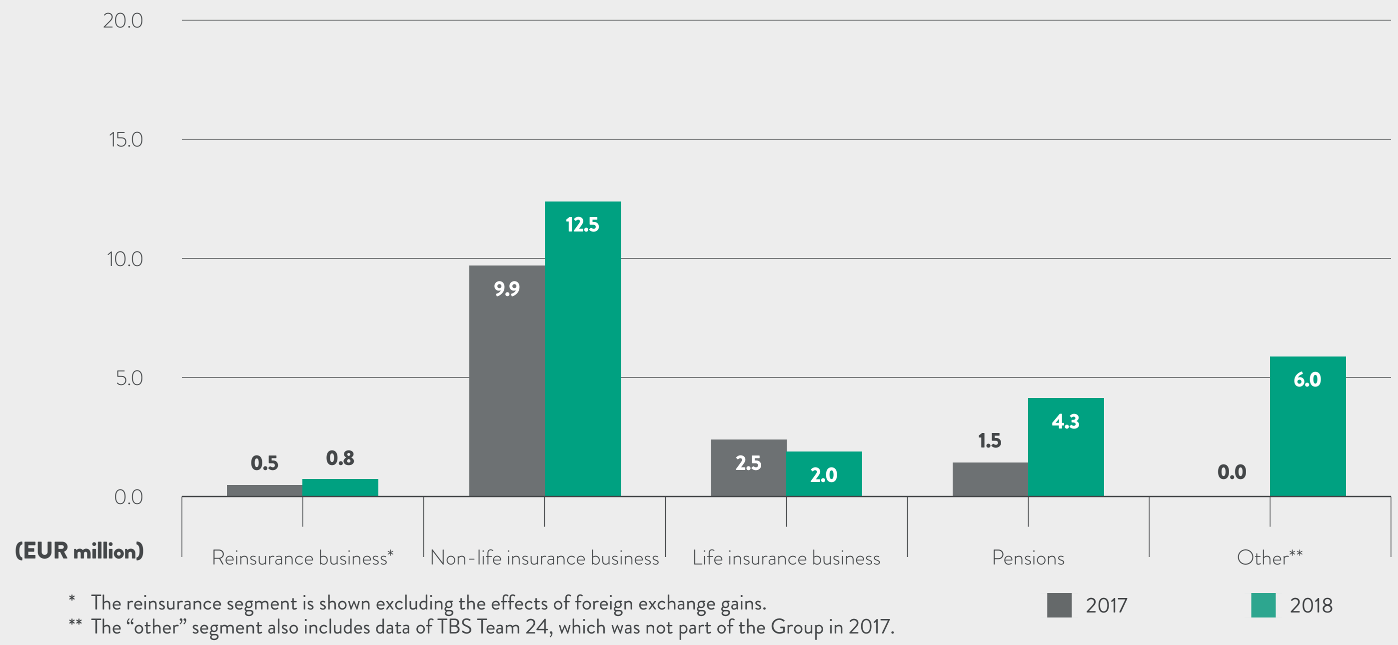
| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Personal accident | 28,306,999 | 27,697,840 | 102.2 |
| Health | 6,820,565 | 6,885,267 | 99.1 |
| Land vehicles casco | 101,923,291 | 87,691,767 | 116.2 |
| Railway rolling stock | 143,866 | 191,782 | 75.0 |
| Aircraft hull | 759,435 | 167,714 | 452.8 |
| Ships hull | 5,265,092 | 4,992,710 | 105.5 |
| Goods in transit | 6,857,151 | 6,342,375 | 108.1 |
| Fire and natural forces | 79,380,436 | 78,750,066 | 100.8 |
| Other damage to property | 35,622,632 | 32,698,422 | 108.9 |
| Motor liability | 111,409,123 | 102,487,948 | 108.7 |
| Aircraft liability | 107,829 | 253,849 | 42.5 |
| Liability for ships | 939,050 | 944,269 | 99.4 |
| General liability | 20,376,242 | 18,653,533 | 109.2 |
| Credit | 4,228,542 | 4,325,848 | 97.8 |
| Suretyship | 118,828 | 400,850 | 29.6 |
| Miscellaneous financial loss | 1,960,111 | 2,290,214 | 85.6 |
| Legal expenses | 169,916 | 224,098 | 75.8 |
| Assistance | 11,524,953 | 5,827,553 | 197.8 |
| Life | 43,835,525 | 42,083,797 | 104.2 |
| Unit-linked life | 44,920,115 | 47,956,091 | 93.7 |
| Total | 504,669,701 | 470,865,993 | 107.2 |

Consolidated net premiums earned by operating segment



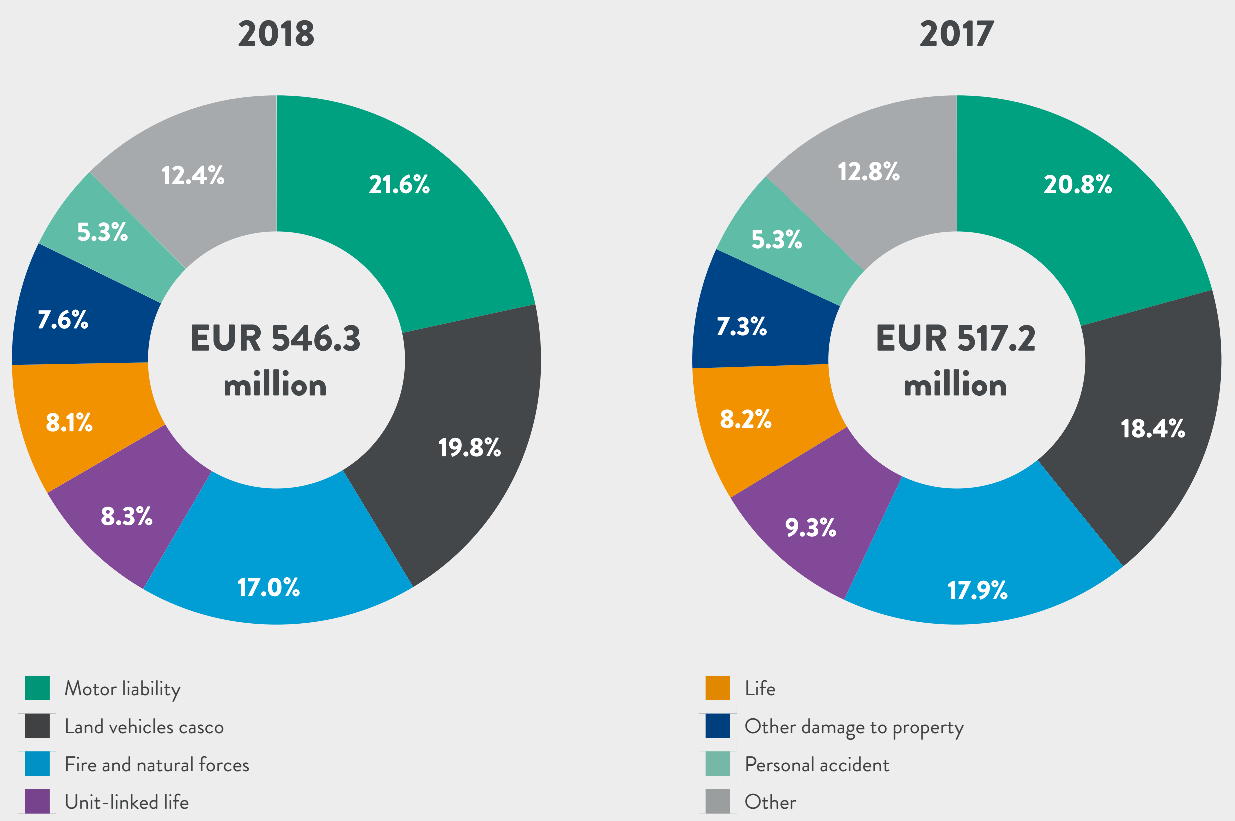

## Consolidated other technical income and other income

Composition of other technical income and other income by operating segment




* The reinsurance segment is shown excluding the effects of foreign exchange gains.
** The "other" segment also includes data of TBS Team 24, which was not part of the Group in 2017.

Consolidated gross premiums written by class of business



## Consolidated net claims incurred

### Consolidated net claims incurred, including the change in the mathematical provision and the change in the provision for unit-linked business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross claims paid | 342,556,518 | 309,727,160 | 110.6 |
| Net claims paid | 330,096,400 | 293,880,632 | 112.3 |
| Change in the net provision for outstanding claims | -9,335,814 | 2,222,688 | -420.0 |
| **Net claims incurred** | **320,760,586** | **296,103,320** | **108.3** |
| Change in other technical provisions* | -13,207,584 | 2,179,849 | -605.9 |
| Change in technical provisions for policyholders who bear the investment risk | -15,962,680 | 1,121,327 | -1,423.6 |
| **Net claims incurred, including the change in the mathematical and UL provisions** | **291,590,322** | **299,404,496** | **97.4** |

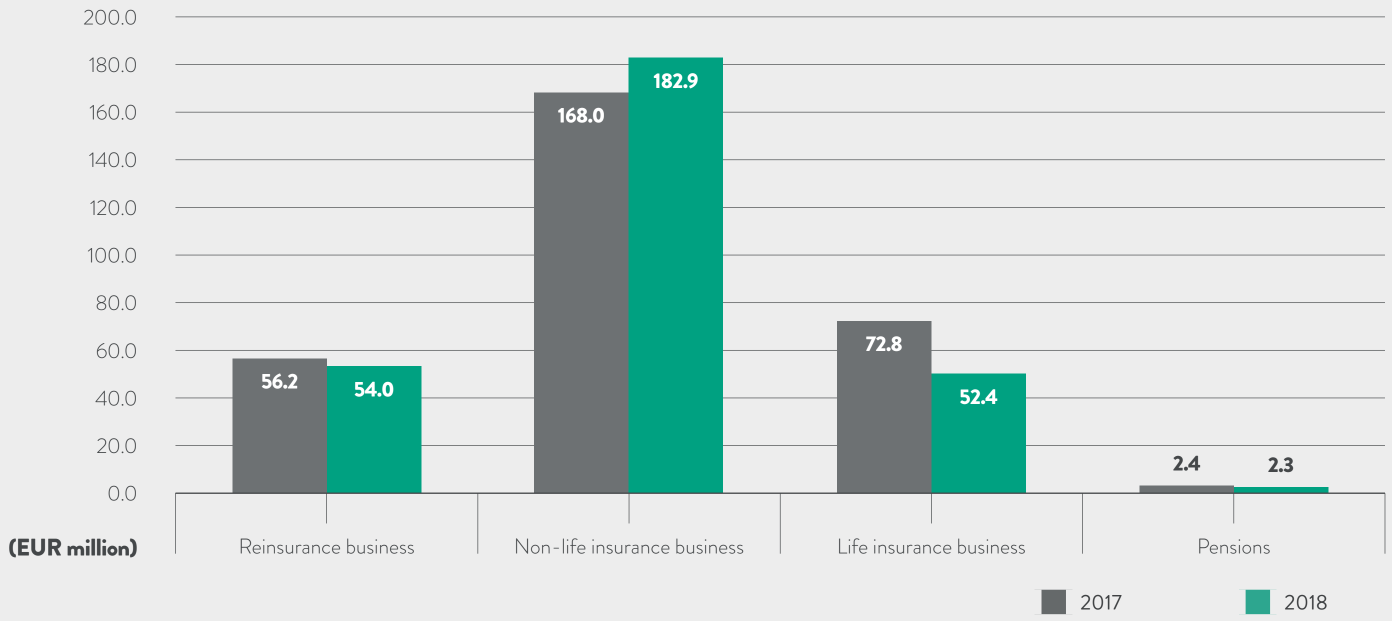
* This comprises mostly mathematical provisions.

### Consolidated net claims incurred by class of business[46]

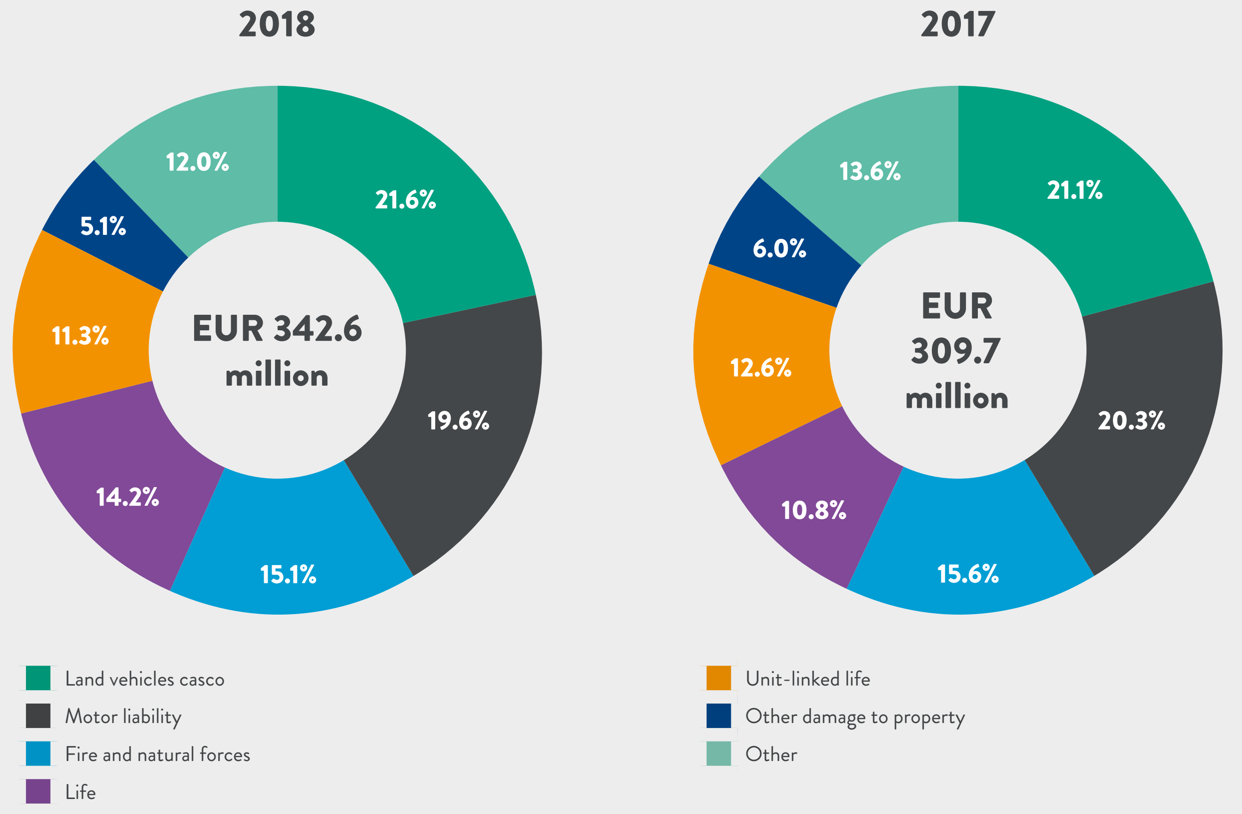
| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Personal accident | 11,168,972 | 11,382,301 | 98.1 |
| Health | 4,264,920 | 4,806,901 | 88.7 |
| Land vehicles casco | 73,108,208 | 65,305,931 | 111.9 |
| Railway rolling stock | 587,259 | 102,640 | 572.2 |
| Aircraft hull | 359,839 | 356,349 | 101.0 |
| Ships hull | 6,844,282 | 5,751,369 | 119.0 |
| Goods in transit | 5,684,790 | 3,411,664 | 166.6 |
| Fire and natural forces | 42,068,388 | 57,351,814 | 73.4 |
| Other damage to property | 17,979,720 | 16,041,598 | 112.1 |
| Motor liability | 62,105,208 | 51,177,373 | 121.4 |
| Aircraft liability | -38,163 | -22,014 | 173.4 |
| Liability for ships | 354,175 | 299,096 | 118.4 |
| General liability | 6,777,430 | 5,817,769 | 116.5 |
| Credit | -222,186 | -785,811 | 28.3 |
| Suretyship | -98,655 | 322,983 | -30.5 |
| Miscellaneous financial loss | 1,091,744 | 1,324,879 | 82.4 |
| Legal expenses | -8,939 | 10,748 | -83.2 |
| Assistance | 2,403,444 | 1,342,338 | 179.0 |
| Life | 47,690,979 | 33,292,805 | 143.2 |
| Unit-linked life | 38,639,171 | 38,812,586 | 99.6 |
| **Total** | **320,760,586** | **296,103,320** | **108.3** |

[46] Does not include the change in the mathematical provision or change in the provision for unit-linked business.

### Composition of consolidated net claims incurred, including the change in the mathematical provision, and the change in the provision for unit-linked business by operating segment

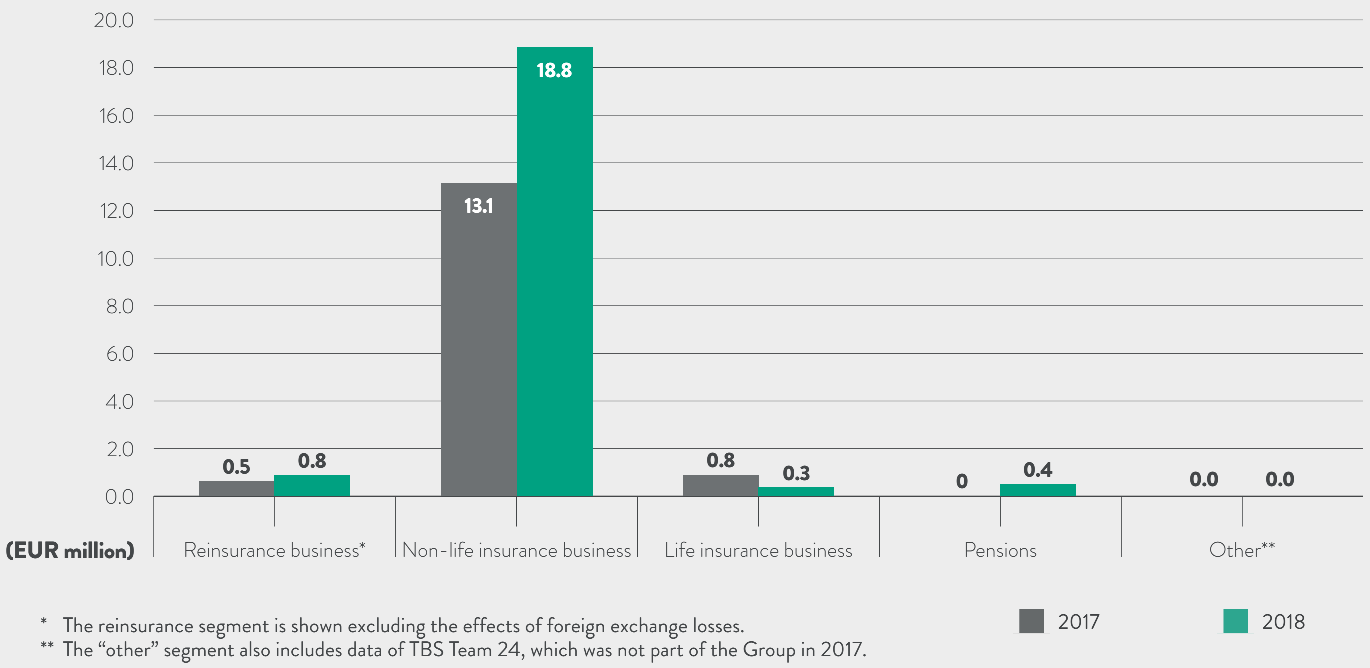



### Consolidated gross claims paid by class of business



## Consolidated other technical expenses and other expenses

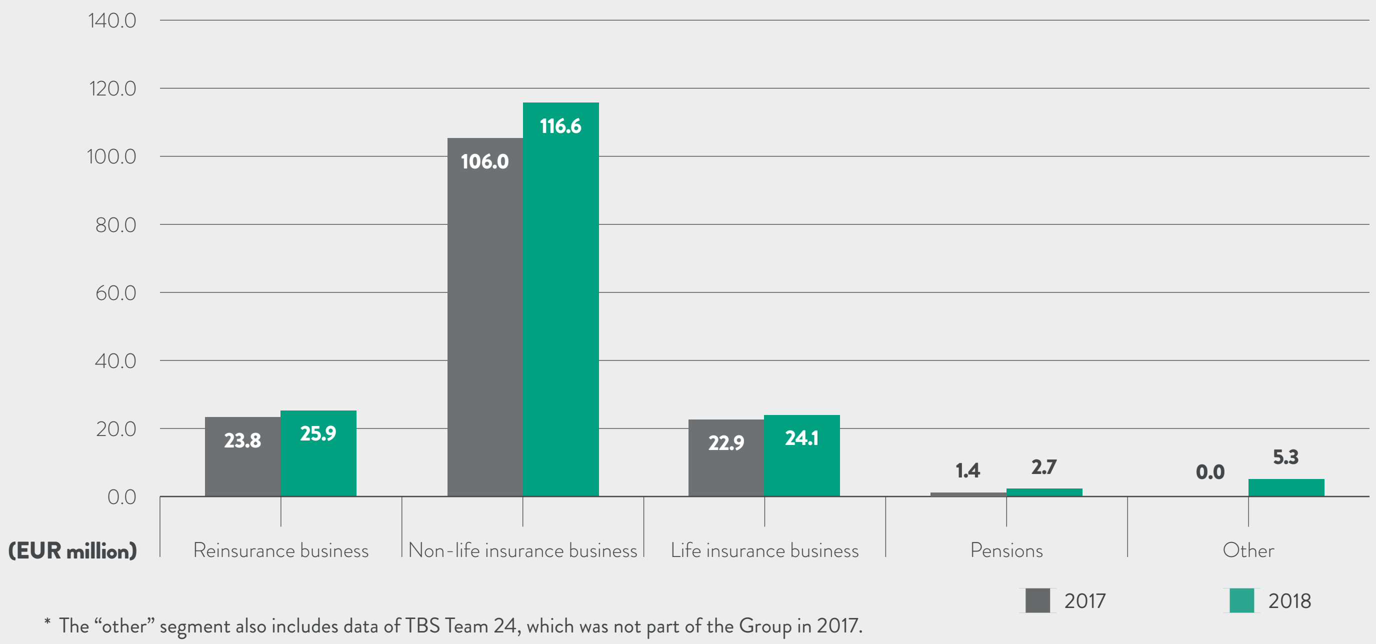
### Composition of other technical expenses and other expenses by operating segment




* The reinsurance segment is shown excluding the effects of foreign exchange losses.
** The "other" segment also includes data of TBS Team 24, which was not part of the Group in 2017.

## Consolidated operating expenses

### Consolidated net operating expenses by operating segment




* The "other" segment also includes data of TBS Team 24, which was not part of the Group in 2017.

### Consolidated operating expenses

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **Acquisition costs** | 58,372,509 | 51,949,127 | 112.4 |
| **Change in deferred acquisition costs (+/-)** | -1,598,536 | -2,389,002 | 66.9 |
| **Other operating expenses** | 121,357,464 | 107,402,203 | 113.0 |
| **Operating expenses** | **178,131,437** | **156,962,328** | **113.5** |
| **Income from reinsurance commission** | -3,634,682 | -2,870,868 | 126.6 |
| **Net operating expenses** | **174,496,755** | **154,091,459** | **113.2** |

## Consolidated net investment income

The net investment income of the investment portfolio also includes the income and expenses relating to investment property. These are shown in the income statement under other income/expenses.

### Consolidated net investment income of the investment portfolio

| (EUR) | 2018 | 2017 | Absolute change |
|---|---|---|---|
| Net investment income of the investment portfolio | 17,768,423 | 15,729,446 | 2,038,977 |
| Net investment income of the investment portfolio, excluding exchange differences | 17,922,647 | 21,660,810 | -3,738,163 |

Figures for 2017 differ from those published in the 2017 annual report as the figures then published did not include investment property data relating to depreciation of equipment.

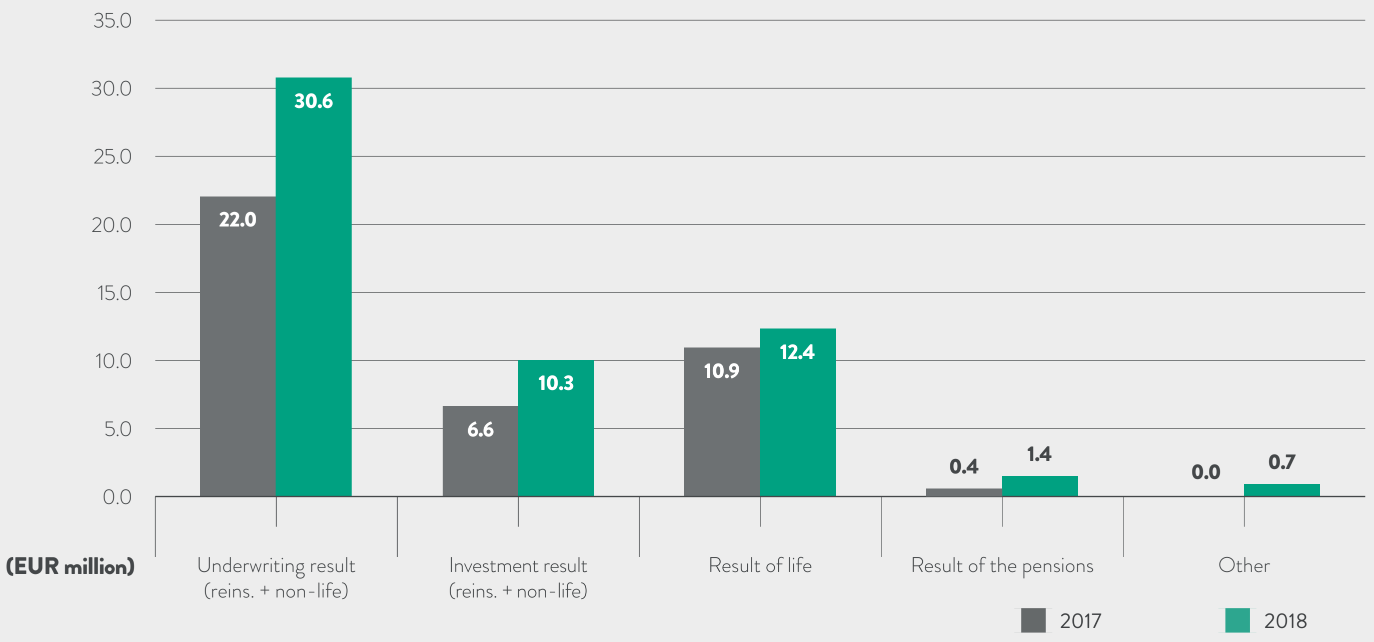
### Consolidated income and expenses relating to the investment portfolio

| (EUR) | 2018 | 2017 | Absolute change |
|---|---|---|---|
| **Income** | | | |
| Interest income | 16,459,186 | 18,607,327 | -2,148,141 |
| Change in fair value and gains on disposal of FVPL assets | 213,683 | 229,386 | -15,703 |
| Gains on disposal of other IFRS asset categories | 2,251,786 | 3,122,333 | -870,547 |
| Income from dividends and shares – other investments | 1,378,367 | 1,141,433 | 236,934 |
| Exchange gains | 6,416,544 | 4,202,714 | 2,213,830 |
| Other income | 1,316,209 | 657,837 | 658,372 |
| **Income relating to the investment portfolio** | **28,035,775** | **27,961,030** | **74,745** |
| Net unrealised gains on investments of life insurance policyholders who bear the investment risk | 16,867,324 | 16,849,384 | 17,940 |
| **Expenses** | | | |
| Interest expenses | 28,445 | 718,860 | -690,415 |
| Change in fair value and losses on disposal of FVPL assets | 636,625 | 79,645 | 556,980 |
| Losses on disposal of other IFRS asset categories | 305,347 | 584,859 | -279,512 |
| Goodwill impairment losses relating to investments in associates | 151,130 | 0 | 151,130 |
| Impairment losses on other investments | 1,943,975 | 320,000 | 1,623,975 |
| Exchange losses | 6,570,768 | 10,134,078 | -3,563,310 |
| Other | 631,062 | 394,142 | 236,920 |
| **Expenses relating to the investment portfolio** | **10,267,352** | **12,231,584** | **-1,964,232** |
| Net unrealised losses on investments of life insurance policyholders who bear the investment risk | 23,498,245 | 8,256,416 | 15,241,829 |

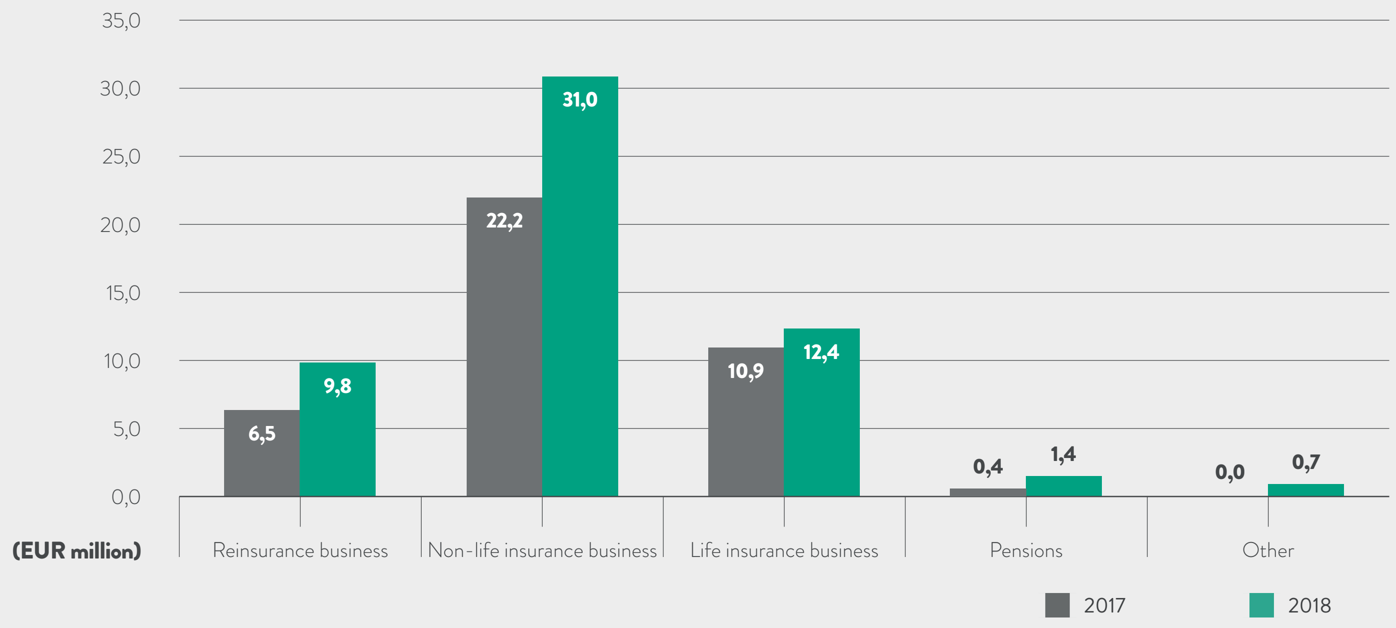
Figures for 2017 differ from those published in the 2017 annual report as the figures then published did not include investment property data relating to depreciation of equipment.

## Consolidated gross profit or loss

### Composition of the consolidated gross profit



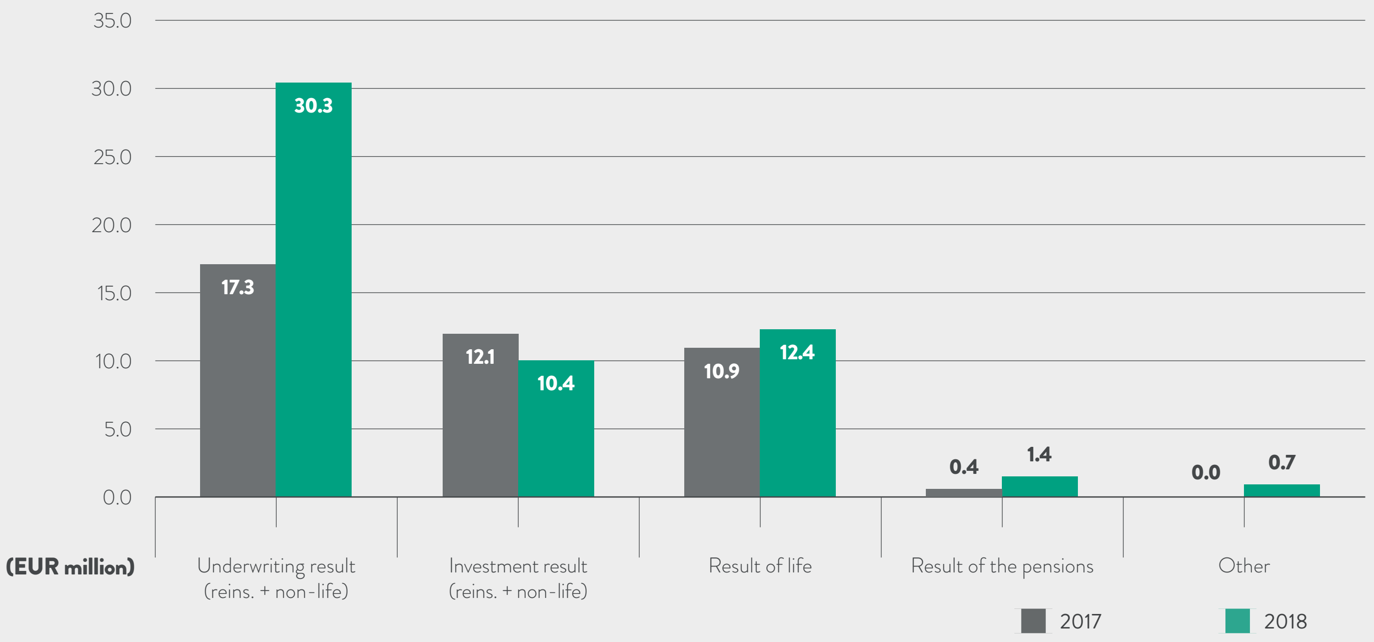

### Composition of the consolidated gross income statement by operating segment




* The “other” segment also includes data of TBS, which was not part of the Group in 2017.

Since individual items of the income statement are affected by foreign exchange differences, the following graph shows the composition of the income statement excluding the effect of foreign exchange differences.

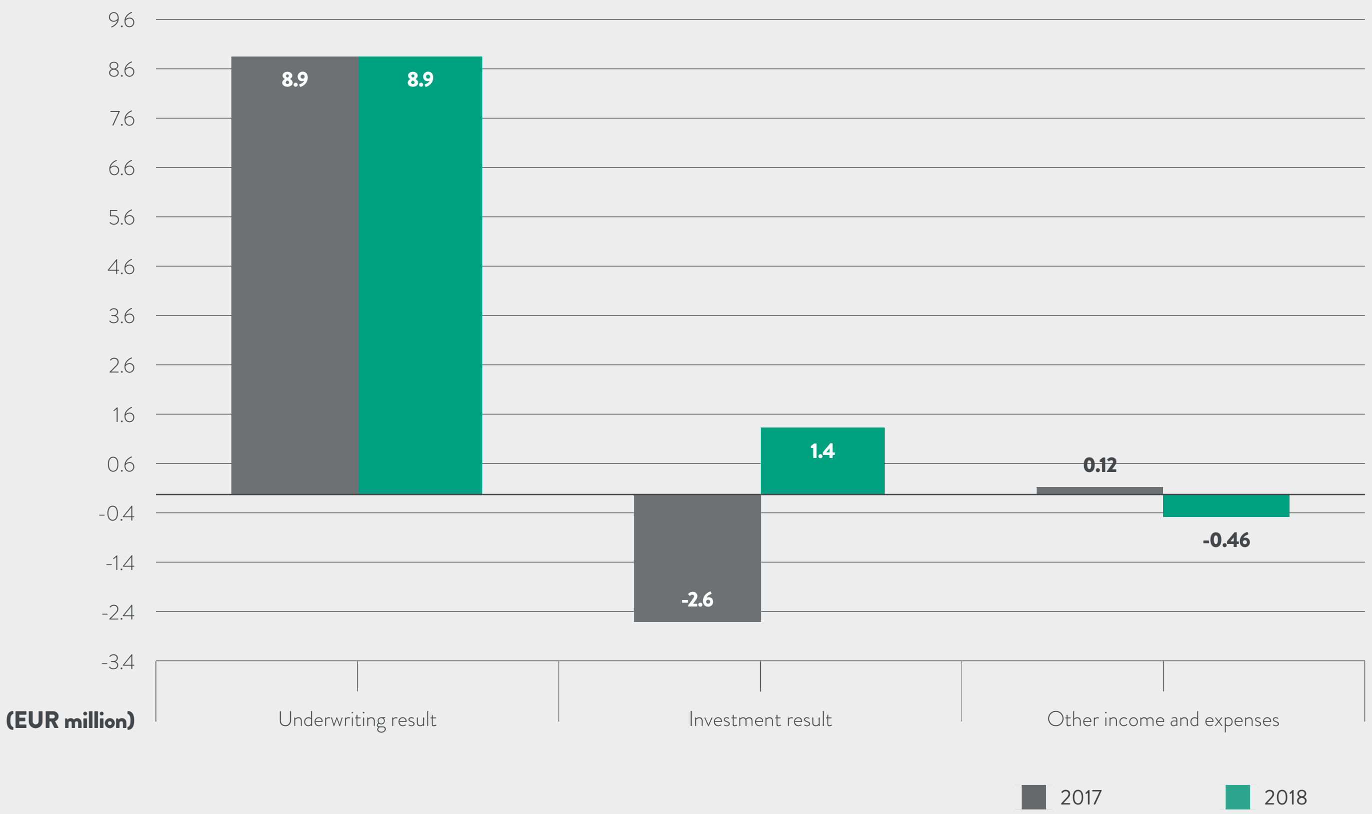
### Composition of the gross consolidated result (excluding the effect of exchange differences)



## 8.1 Reinsurance business

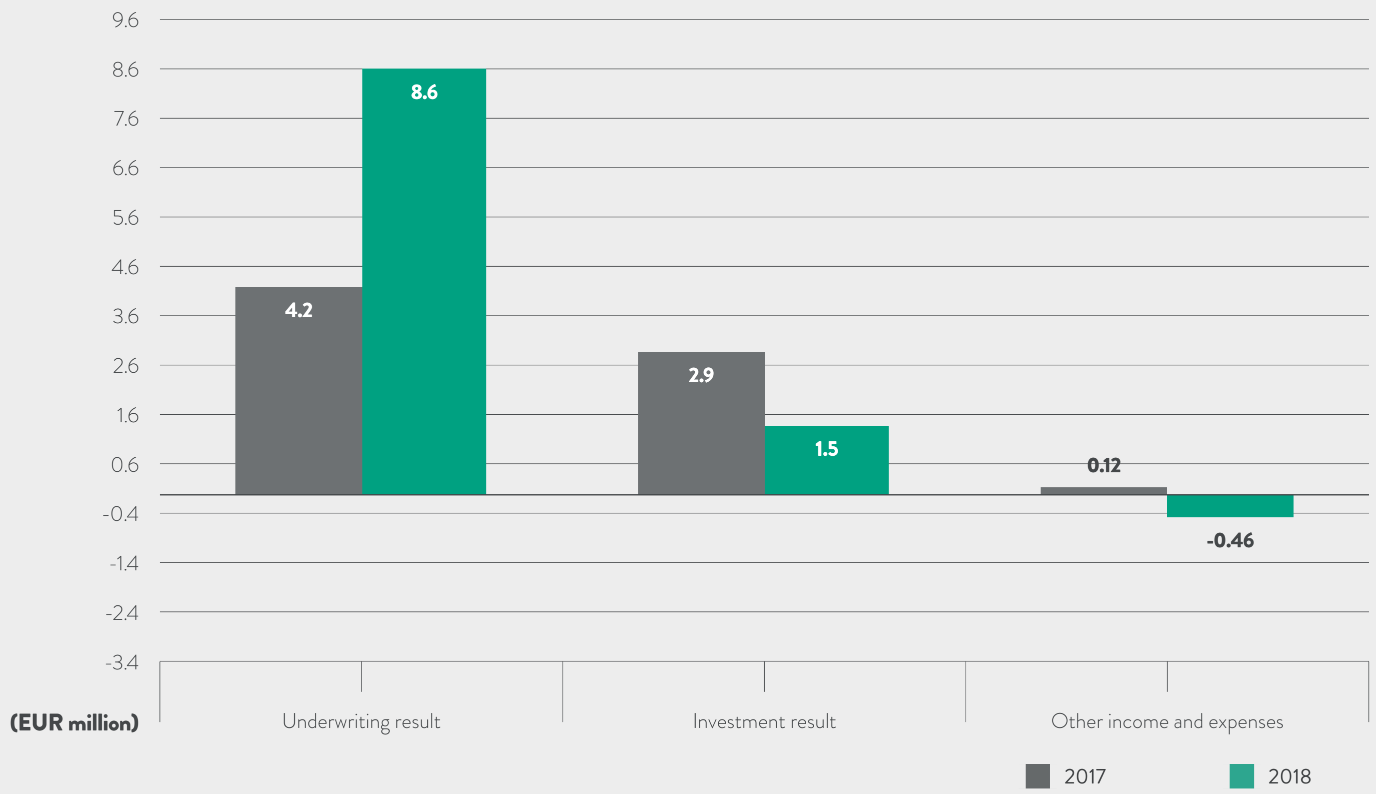
This segment primarily reflects the developments in the portfolio that Sava Re writes outside Slovenia, and represents exclusively the business operations outside the Group.

**Composition of the consolidated gross income statement; reinsurance business**




The performance of this operating segment was impacted by exchange differences, which is why the underwriting and investment results are not directly comparable. The following graph shows the composition of gross profits of the reinsurance segment, excluding the effect of exchange differences.

**Composition of the consolidated gross income statement; reinsurance business, excluding the effect of exchange differences**




The underwriting result, excluding the effect of exchange differences, was more favourable than in 2017, mainly on account of lower claims incurred (deviations are explained later in the section) and a one-off effect of the positive solution to a legal case (EUR 1.5 million). The investment result in 2018 was lower than in 2017 as the result of impaired financial investments.

The Company follows a policy of asset and liability currency matching. The impact of exchange differences on results by operating segment was as follows: underwriting categories were impacted by exchange gains of EUR 0.3 million (2017: EUR 4.7 million) and exchange losses of EUR 0.1 million relating to investments (2017: EUR 5.5 million).

## Net premiums earned

### Net premiums earned; reinsurance business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross premiums written | 89,317,441 | 96,220,818 | 92.8 |
| Net premiums written | 85,544,322 | 92,506,611 | 92.5 |
| Change in net unearned premiums | 2,798,438 | -1,753,176 | -159.6 |
| **Net earned premiums** | **88,342,760** | **90,753,435** | **97.3** |

Gross premiums written in the reinsurance segment in 2018 were 7.2% lower as the result of restrictions on systematic growth and the rejection of less profitable contracts. The change in net unearned premiums had a positive impact on net earned premiums in 2018 (decline in gross premiums and the resulting decrease in net unearned premiums), while in 2017 the impact was negative (growth in gross premiums and the resulting increase in net unearned premiums).

More details on the unconsolidated data developments are provided in section 20.1 "Sava Re review of operations".

## Net claims incurred[47]

### Net claims incurred; reinsurance business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross claims paid | 51,397,784 | 54,159,750 | 94.9 |
| Net claims paid | 49,690,201 | 53,508,162 | 92.9 |
| Change in the net provision for outstanding claims | 4,052,248 | 2,554,245 | 158.6 |
| **Net claims incurred** | **53,742,449** | **56,062,407** | **95.9** |

### Net claims incurred, excluding the effect of exchange differences; reinsurance business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross claims paid | 51,397,784 | 54,159,750 | 94.9 |
| Net claims paid | 49,690,201 | 53,508,162 | 92.9 |
| Change in the net provision for outstanding claims | 4,350,817 | 8,763,433 | 49.6 |
| **Net claims incurred** | **54,041,019** | **62,271,594** | **86.8** |

Exchange differences had a positive impact on net claims incurred in 2017, amounting to EUR 6.2 million. In 2018, net claims incurred, excluding the effect of exchange differences, fell by 4.1% year on year due to fewer major losses (2017: storms in the United States and larger claims in Russia; 2018: typhoon in Japan, floods in India). At 61.4%, the net incurred loss ratio was thus more favourable than in the previous year (2017: 69.0%).

More details on the unconsolidated data developments are provided in section 20.1 "Sava Re review of operations".

## Operating expenses

### Consolidated operating expenses; reinsurance business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Acquisition costs | 21,237,494 | 21,175,815 | 100.3 |
| Change in deferred acquisition costs (+/-) | 652,725 | -1,203,450 | -54.2 |
| Other operating expenses | 4,333,876 | 4,100,605 | 105.7 |
| **Operating expenses** | **26,224,095** | **24,072,970** | **108.9** |
| Income from reinsurance commission | -365,777 | -300,852 | -78.4 |
| **Net operating expenses** | **25,858,319** | **23,772,118** | **108.8** |

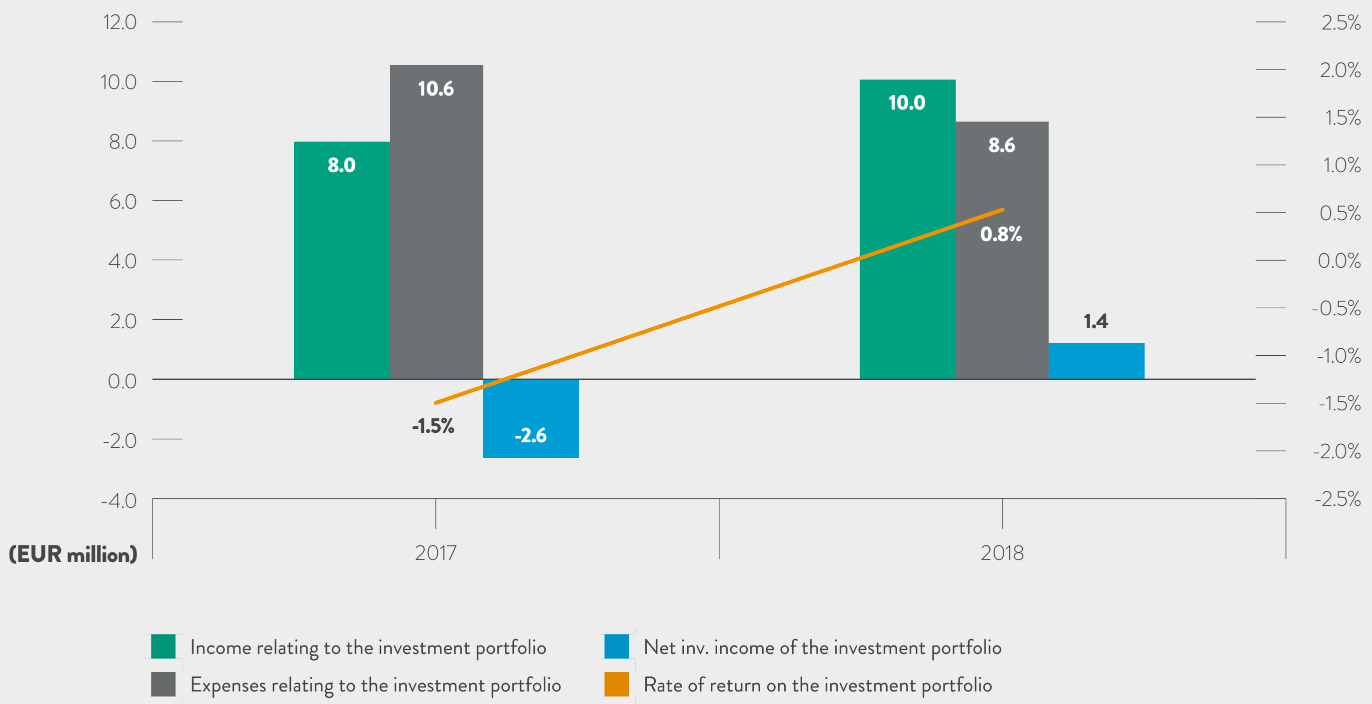
Acquisition costs were up despite lower gross premiums written. Acquisition costs accounted for 23.8% of gross premiums written in 2018, an improvement of 1.8 p.p. compared to 2017. Higher commissions are the result of our striving to secure more profitable contracts that typically provide for higher commission rates, especially in times of low premium rates in reinsurance markets. More profitable underwriting in combination with higher commission rates is reflected in a fall in the combined ratio. In 2018, deferred acquisition costs declined in line with the decline in gross premiums written and lower unearned premiums, while in 2017, they rose as a result of a growth in premiums and higher unearned premiums. Growth in other operating expenses was driven by higher personnel costs, legal services required to acquire new licenses to expand into new markets, and the cost of marketing activities.

More details on the unconsolidated data developments are provided in section 20.1 "Sava Re review of operations".

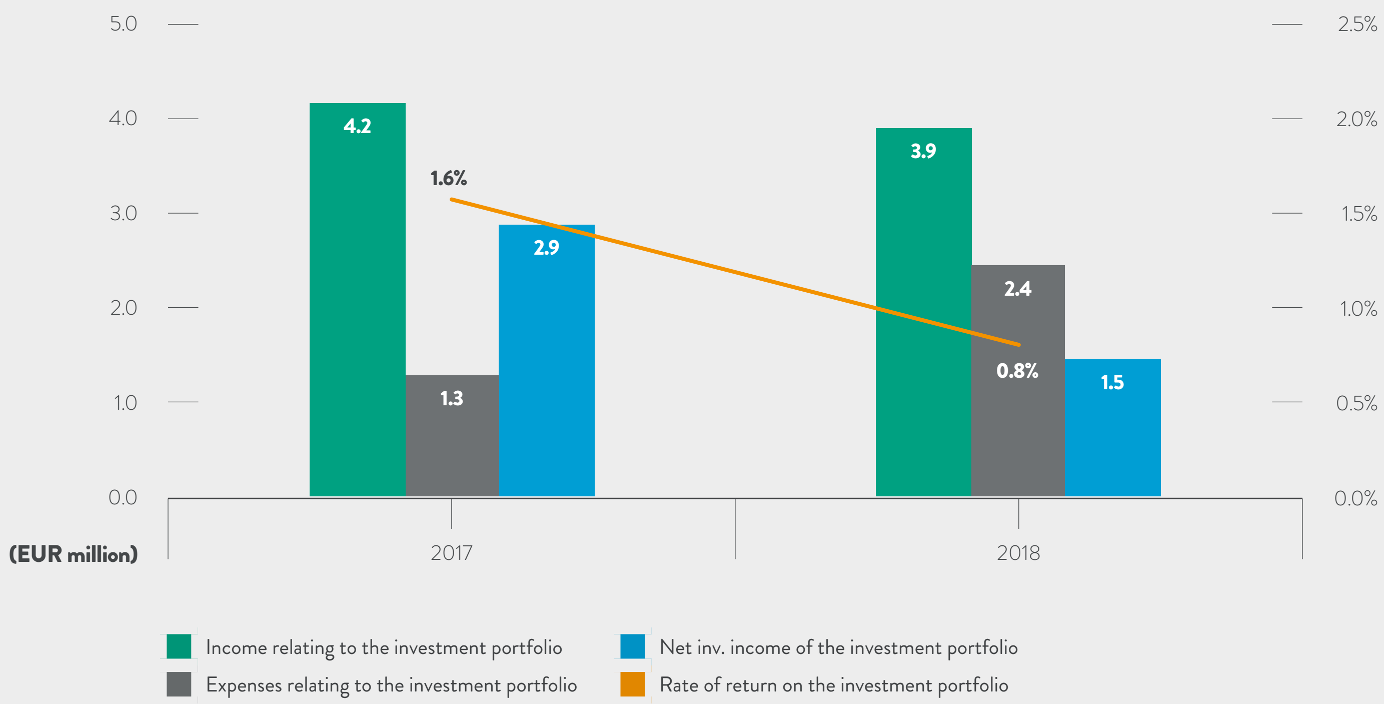
[47] GRI 201-2

## Net investment income

**Income, expenses and the net investment income relating to the investment portfolio; reinsurance business**




**Income, expenses and net investment income of the investment portfolio, excluding the effect of exchange differences; reinsurance business**




Given that the exchange differences mainly relate to Sava Re, and their impact does not fully affect profit or loss, the graph above shows the net investment income of the investment portfolio, excluding exchange differences relating to the reinsurance segment.

Compared to 2017, the Group realised EUR 1.4 million lower net investment income in the reinsurance segment. This was mainly affected by the impairment of financial investments in the portfolio equity securities. Net investment income of the investment portfolio totalled EUR 3.4 million or 1.9% prior to impairment.

## 8.2 Non-life business

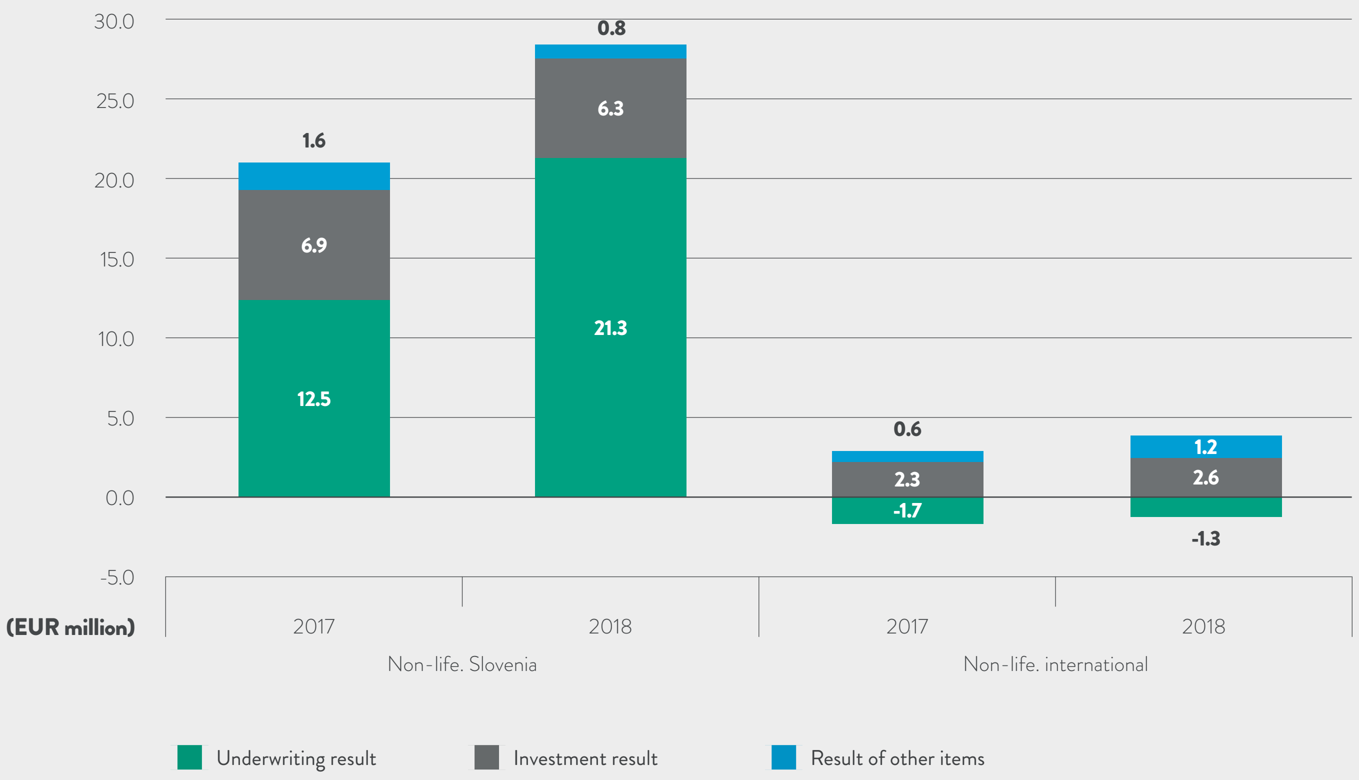
The non-life insurance segment comprises the operations of the following companies:

- Zavarovalnica Sava, non-life
- Sava Osiguranje (MNE)
- Sava Neživotno Osiguranje (SRB)
- Sava Osiguruvanje (MKD)
- Illyria
- Sava Car
- Sava Agent
- Sava Station
- 70% of Sava Terra

The Slovenian part of Zavarovalnica Sava is discussed under Slovenian non-life insurance, while the Croatian part of the company is discussed under international non-life insurance.

Income statement and statement of financial position by operating segment are presented in the notes to the financial statements, section 17.4.36 "Segment reporting".

**Composition of the consolidated gross income statement; non-life insurance business**




In 2018, the consolidated income statement for the non-life operating segment improved by EUR 8.8 million compared to 2017. Of this, EUR 7.4 million related to the Slovenian insurer, and EUR 1.3 million to non-Slovenian insurers.

The consolidated underwriting result of the Slovenian non-life insurer improved by EUR 8.8 million. This improvement is mainly due to higher net premiums earned, since the insurance company recorded growth in almost all types of non-life insurance, primarily in the motor insurance segment, which is the result of higher average premiums and the number of insurance policies, the acquisition of several new policyholders, and the increase in the portfolio related to FOS business (freedom to provide services). Consolidated net claims incurred in the non-life segment increased due to more losses from weather-related disasters and several large non-life claims, but the increase in net claims incurred was lower than the growth in net premiums earned, which resulted in a better net incurred loss ratio in the non-life segment Slovenia. The absolute growth in operating costs was related to the increased volume of business and the inclusion of the costs of assistance services provided by TBS Team 24 to Zavarovalnica Sava. However, operating costs also grew more slowly than net premiums earned, which also contributed to a better net expense ratio in the Slovenian non-life segment.

The investment result of Slovenian non-life insurers deteriorated by EUR 0.6 million as a result of lower interest income arising from lower interest rates in capital markets.

The result of other income and expenses of the Slovenian non-life insurer deteriorated, which can be attributed to lower other income and higher other expenses. Other income was higher in 2017 due to the settlement and harmonisation of corporate tax for 2016. Other expenses increased in 2018 due to discounts for early payment of premiums, which were higher than in the previous year.

The consolidated underwriting result of non-domestic non-life insurers improved by EUR 0.4 million. This improvement was mainly the result of higher net premiums earned by foreign non-life insurers, while operating expenses grew more slowly than net premiums earned. Consequently, the net expense ratio of non-domestic non-life insurers improved.

The investment result of non-domestic non-life insurers remained at the level of the previous year.

The improved result of other income and expenses of non-domestic non-life insurers was the result of lower other expenses, in particular of the Serbian non-life insurer owing to a reduction in expenses from impairment of other receivables and advances, and the Croatian non-life insurance company due to lower value adjustments of receivables from premiums.

## Net premiums earned

### Net premiums earned; non-life insurance business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross premiums written | 367,910,907 | 330,931,091 | 111.2 |
| Net premiums written | 345,100,410 | 300,773,781 | 114.7 |
| Change in net unearned premiums | -17,472,412 | -10,471,397 | 166.9 |
| **Net earned premiums** | **327,627,998** | **290,302,385** | **112.9** |

### Net premiums earned; non-life insurance business

| (EUR) | Slovenia | | | International | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | Index | 2018 | 2017 | Index |
| Gross premiums written | 299,788,809 | 270,369,068 | 110.9 | 68,122,098 | 60,562,023 | 112.5 |
| Net premiums written | 281,415,362 | 244,442,228 | 115.1 | 63,685,049 | 56,331,553 | 113.1 |
| Change in net unearned premiums | -15,328,177 | -8,441,411 | 181.6 | -2,144,235 | -2,029,986 | 105.6 |
| **Net earned premiums** | **266,087,185** | **236,000,817** | **112.7** | **61,540,814** | **54,301,567** | **113.3** |

### Unconsolidated gross non-life premiums of Sava Re Group companies

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Zavarovalnica Sava, Slovenian part (non-life) | 299,921,688 | 270,515,513 | 110.9 |
| Zavarovalnica Sava, Croatian part (non-life) | 12,622,849 | 10,632,760 | 118.7 |
| Sava Neživotno Osiguranje (SRB) | 20,301,623 | 16,554,669 | 122.6 |
| Illyria | 9,377,074 | 8,298,477 | 113.0 |
| Sava Osiguruvanje (MKD) | 13,038,150 | 12,740,051 | 102.3 |
| Sava Osiguranje (MNE) | 12,804,286 | 12,354,736 | 103.6 |
| **Total** | **368,065,671** | **331,096,207** | **111.2** |

Gross non-life insurance premiums grew by 11.2% in 2018 as a result of the growth in gross non-life premiums of all insurance companies in the Group. In Slovenia they rose by 10.9%, mainly due to higher premium volumes in the motor and non-life business. Motor premium growth achieved with private and corporate customers was driven both by a higher number of policies written and the growth in average premiums, as well as by a larger number of policies sold with broader coverage. Growth in property insurance was the result of the acquisition of certain new policyholders and higher premiums for existing policyholders on account of a larger number of insured items. The Slovenian non-life insurance market grew by 7.0% in the period.

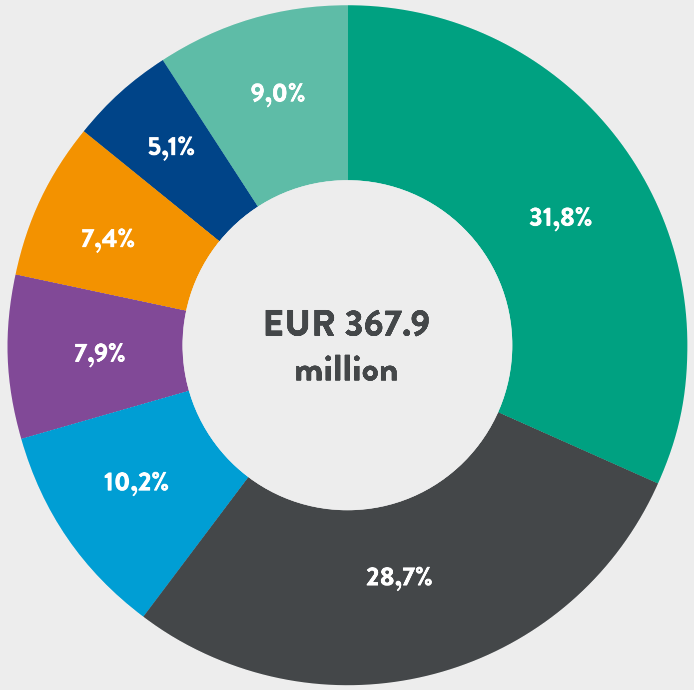
Gross non-life premiums written outside Slovenia increased by 12.5% in all non-Slovenian non-life insurance companies, with the Serbian non-life insurer recording the highest growth. Energoprojekt Garant was acquired by the Serbian non-life insurer at the end of 2018, which gave rise to EUR 0.9 million higher premiums written by the insurer. The Serbian non-life insurer recorded gross premium growth, particularly in voluntary health and motor liability insurance. The Croatian branch of Zavarovalnica Sava achieved the highest growth in gross premiums in motor liability insurance. The branch saw total non-life premium growth of 18.7%, whereas the Croatian non-life insurance market grew by 10.1%. In terms of gross non-life premium growth, the Croatian non-life insurer is followed by the Kosovan and Montenegrin non-life insurers. The Kosovan non-life insurer achieved the highest absolute growth in gross premiums in health insurance and accident insurance owing to the acquisition of new policyholders, and in assistance insurance as a result of the improved sales network and a greater number of points of sale and sales agents. The Montenegrin non-life insurer achieved the highest absolute growth in gross premiums in motor vehicle liability insurance and motor casco insurance owing to better functioning internal and external sales networks, and hence a greater volume of premiums by existing policyholders as well as the acquisition of new policyholders. Premiums at the North Macedonian insurer increased through better organised sales and the related acquisition of new customers and intensified sales of optional insurance.

Net non-life insurance premiums grew by 14.7% in 2018. The growth in net premiums written by the non-life insurer in Slovenia was higher than the growth in gross premiums due to the insurer's own assistance services being fully reinsured in the past. Unearned premiums increased in line with the growth in gross premiums written.

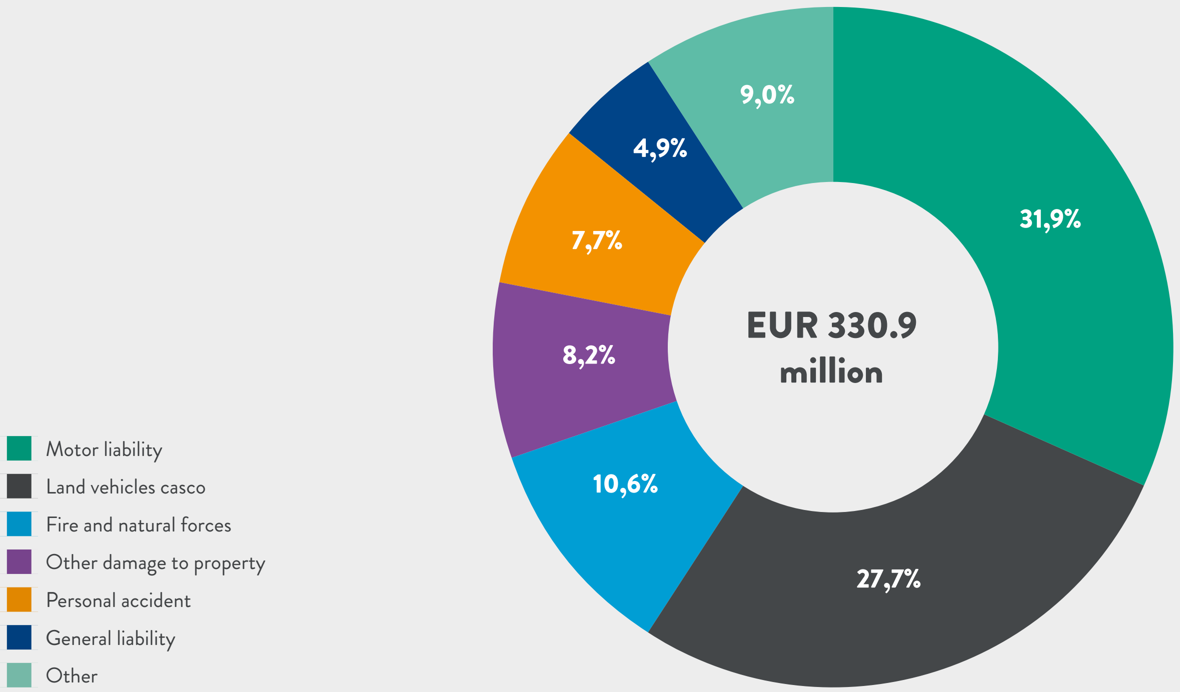
Overall, this led to a 12.9% increase in net premiums earned.

### Composition of consolidated gross non-life insurance premiums by class of business

**2018**




**2017**




## Net claims incurred

### Net claims incurred; non-life insurance business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross claims paid | 203,745,926 | 183,008,928 | 111.3 |
| Net claims paid | 193,079,313 | 167,923,780 | 115.0 |
| Change in the net provision for outstanding claims | -12,499,764 | -78,266 | 15,970.9 |
| **Net claims incurred** | **180,579,550** | **167,845,514** | **107.6** |

### Net claims incurred; non-life insurance business

| (EUR) | Slovenia | | | International | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | Index | 2018 | 2017 | Index |
| Gross claims paid | 172,411,609 | 154,626,111 | 111.5 | 31,334,317 | 28,382,817 | 110.4 |
| Net claims paid | 163,417,406 | 143,274,196 | 114.1 | 29,661,906 | 24,649,585 | 120.3 |
| Change in the net provision for outstanding claims | -12,926,567 | -526,011 | 2,457.5 | 426,803 | 447,745 | 95.3 |
| **Net claims incurred** | **150,490,839** | **142,748,185** | **105.4** | **30,088,710** | **25,097,330** | **119.9** |

### Unconsolidated gross non-life claims paid of Sava Re Group companies

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Zavarovalnica Sava, Slovenian part (non-life) | 176,876,690 | 155,408,220 | 113.8 |
| Zavarovalnica Sava, Croatian part (non-life) | 6,046,599 | 4,504,967 | 134.2 |
| Sava Neživotno Osiguranje (SRB) | 9,126,197 | 6,212,471 | 146.9 |
| Illyria | 5,424,456 | 4,512,001 | 120.2 |
| Sava Osiguruvanje (MKD) | 6,091,707 | 8,899,999 | 68.4 |
| Sava Osiguranje (MNE) | 4,671,859 | 4,314,186 | 108.3 |
| **Total** | **208,237,508** | **183,851,844** | **113.3** |

Gross claims paid in Slovenia in 2018 were higher due to a larger volume of gross claims paid for private motor business and partly for property business. In 2018, there were several weather disasters where claims did not reach such a level as to trigger reinsurance coverage for catastrophic events, but a large number of such events affected profit or loss to a significant extent. Gross incurred claims from weather disasters in 2018 amounted to EUR 8.3 million. Of these, the insurance company has already paid out EUR 6.9 million. An increase in claims in motor insurance is largely a consequence of a larger insurance portfolio and changed fleet composition. In motor vehicle liability insurance, however, provisions increased additionally regarding some annuity claims files. In assistance insurance, the increase in net claims incurred follows the movement of net premiums earned as a result of the establishment of own assistance services previously provided by an external provider based on a reinsurance contract.

Gross claims paid for non-Slovenian business rose by 10.4%. The growth was most affected by the settlement of claims by the non-life insurer in Serbia. The greatest absolute growth in claims made was recorded in health insurance, followed by fire and natural forces insurance. Growth in gross claims paid by Zavarovalnica Sava in Croatia was mostly due to the increased frequency of small claims related to motor liability claims in the last two quarters of 2018. Gross claims of the Kosovan non-life insurer increased in health insurance and motor vehicle liability insurance due to increased premium volumes and a rise in the average amount of claims, and in motor vehicle liability insurance due to the transfer of claims for uninsured vehicles from the item other technical expenses to gross claims payments. The Montenegrin insurer recorded a slight growth in claims due to several large losses in motor insurance and in accident and voluntary health insurance. Furthermore, the North Macedonian insurer incurred a decline in gross claims payments in 2018, and also a drop in reinsurers' shares as the result of a large claim paid out in 2017 relating to other damage to property insurance, which was reinsured, but this did not affect net claims incurred.

The change (decrease) in the net provision for outstanding claims in non-life insurance in Slovenia of EUR 12.4 million is partly a result of some major reserved claims during 2018, and can be attributed in part to the release of the claims provisions for incurred but not reported claims in motor vehicle liability insurance and general liability insurance due to additional analyses of the appropriateness of claims provisions.

## Operating expenses

### Consolidated operating expenses; non-life insurance business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **Acquisition costs** | 30,232,646 | 24,484,789 | 123.5 |
| **Change in deferred acquisition costs (+/-)** | -1,771,029 | -677,906 | 261.2 |
| **Other operating expenses** | 91,328,538 | 84,761,952 | 107.7 |
| **Operating expenses** | **119,790,155** | **108,568,835** | **110.3** |
| **Income from reinsurance commission** | -3,211,288 | -2,523,519 | 127.3 |
| **Net operating expenses** | **116,578,868** | **106,045,316** | **109.9** |

### Unconsolidated gross non-life operating expenses of Sava Re Group companies

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **Zavarovalnica Sava, Slovenian part (non-life)** | 79,924,610 | 73,184,792 | 109.2 |
| **Other Group insurers** | 30,208,590 | 27,633,608 | 109.3 |
| **Group non-insurance companies** | 1,408,828 | 1,356,613 | 103.8 |

Consolidated acquisition costs rose by 23.5% due to the growth in consolidated non-life premiums and the related increase in commissions for contractual agents and agencies. Gross written premiums from external sales channels increased compared to 2017.

An increased change in deferred acquisition costs is associated with the increase in the size of the portfolio, which means more deferred acquisition costs.

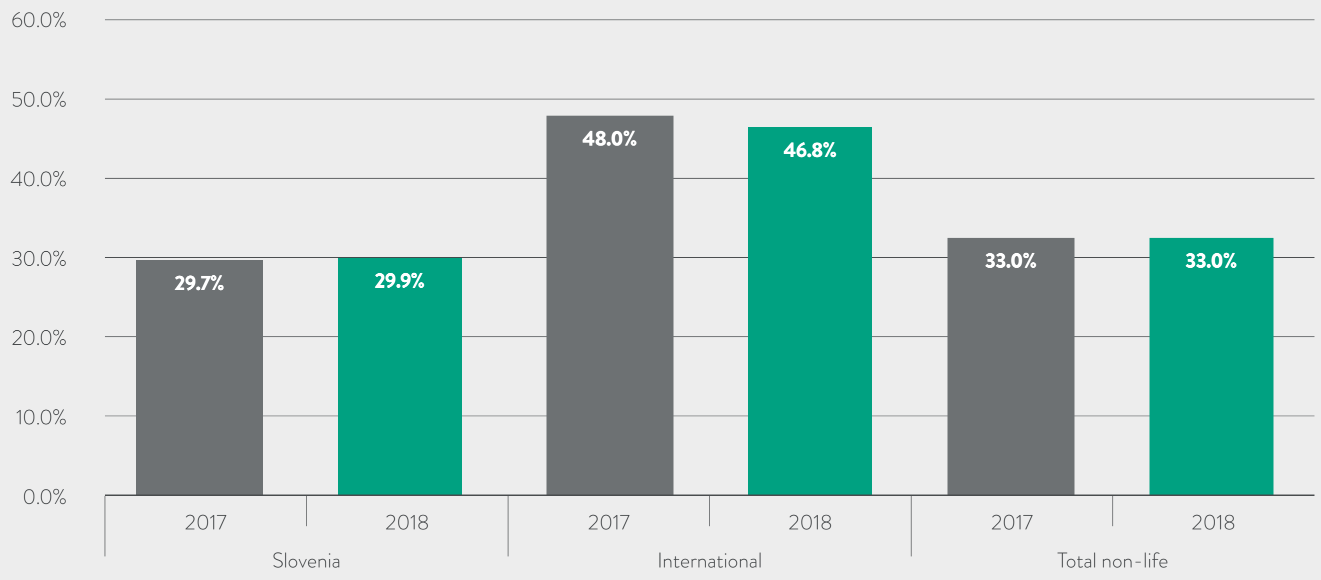
Consolidated other operating expenses were up by 7.7%. Expenses of the Slovenian non-life insurer were higher due to reclassification of other operating expenses from the "other" segment to Slovenia non-life. These costs are related to the costs TBS team 24 incurred in connection with the provision of assistance services to other Group companies. In 2018, these costs totalled EUR 4.1 million.

Consolidated other operating expenses of foreign non-life insurers were up by EUR 1.4 million. The rise in other operating expenses in non-Slovenian insurers was driven mainly by the increase in the level of expenses of the Serbian non-life insurer, namely personnel costs related to sales. Expenses of the non-life insurer in Kosovo rose due to higher costs of the insurance association, the costs of the insurance office and the payment of tax on premiums previously disclosed under other technical expenses. The growth in expenses of non-life insurers in Montenegro and North Macedonia is connected with higher labour costs and costs of services.

CONTENTS



Gross expense ratio; non-life insurance business



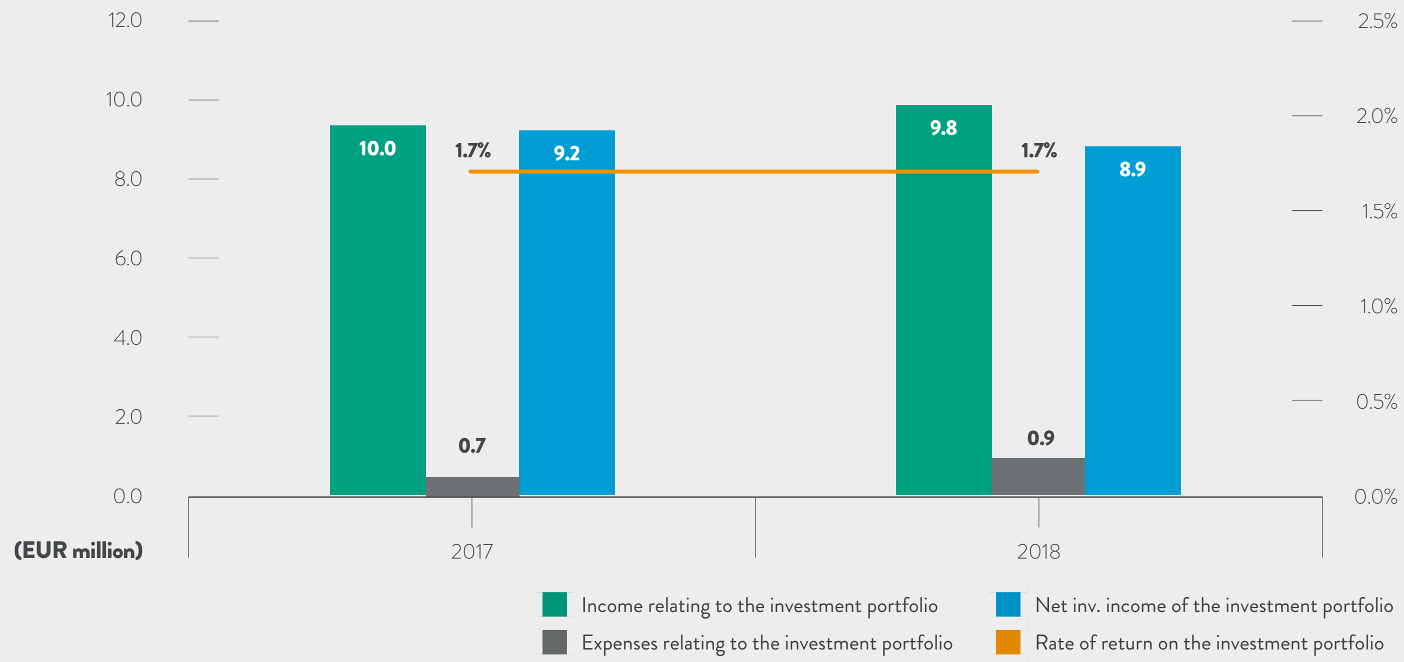

The consolidated gross operating expenses (net of changes in deferred acquisition costs) of non-life business increased by 11.3% and gross consolidated premiums written by 11.2%, as a result of which the gross expense ratio remained on the year-on-year level.

The consolidated gross expense ratio of the Slovenian non-life insurer increased by 0.2 percentage points resulting from an increase of 10.9% in gross premiums written; and acquisition costs and other operating expenses grew by 11.8% due to the abovementioned reclassification of other operating expenses from the “other” segment to Slovenia non-life.

The consolidated gross expense ratio of the non-Slovenian non-life insurers decreased by 1.2 percentage points as the result of an increase of 12.5% for gross written premiums, while acquisition costs and other operating expenses grew by 9.7%.

## Net investment income

Income, expenses and the net investment income relating to the investment portfolio; non-life insurance business




The net investment income of the investment portfolio of non-life insurance business totalled EUR 8.9 million in 2018, down by EUR 0.3 million from 2017. Net investment income was lower largely owing to lower interest income (EUR 0.8 million). The investment return for the period was 1.7%.

## 8.3 Life business

The life insurance segment comprises the operations of the following companies:

- Zavarovalnica Sava, life business
- Sava Životno Osiguranje (SRB)
- Illyria Life
- ZM Svetovanje
- Ornatus KC

The Slovenian part of Zavarovalnica Sava is discussed as Slovenian life insurance, while the Croatian part of the company is discussed as international life insurance. In the 2017 annual report, the life segment also includes Sava Pokojninska, which has been integrated into the pension segment since the first quarter of 2018. For reasons of comparability, the figures below relating to 2017 exclude figures relating to Sava Pokojninska.

The income statement and statement of financial position by operating segment are presented in the notes to the financial statements, section 17.4.36 "Segment reporting".

### Net premiums earned

**Net premiums earned; life insurance business**

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross premiums written | 86,852,148 | 87,962,791 | 98.7 |
| Net premiums written | 86,492,911 | 87,591,012 | 98.7 |
| Change in net unearned premiums | -13,011 | 100,431 | -13.0 |
| Net earned premiums | 86,479,900 | 87,691,443 | 98.6 |

**Net premiums earned; life insurance business**

| (EUR) | Slovenia | | | International | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | Index | 2018 | 2017 | Index |
| Gross premiums written | 78,512,481 | 80,880,631 | 97.1 | 8,339,667 | 7,082,160 | 117.8 |
| Net premiums written | 78,173,958 | 80,527,281 | 97.1 | 8,318,953 | 7,063,731 | 117.8 |
| Change in net unearned premiums | 61,159 | 108,607 | 56.3 | -74,170 | -8,176 | 907.2 |
| Net earned premiums | 78,235,117 | 80,635,888 | 97.0 | 8,244,783 | 7,055,555 | 116.9 |

**Unconsolidated gross life premiums written by Sava Re Group companies**

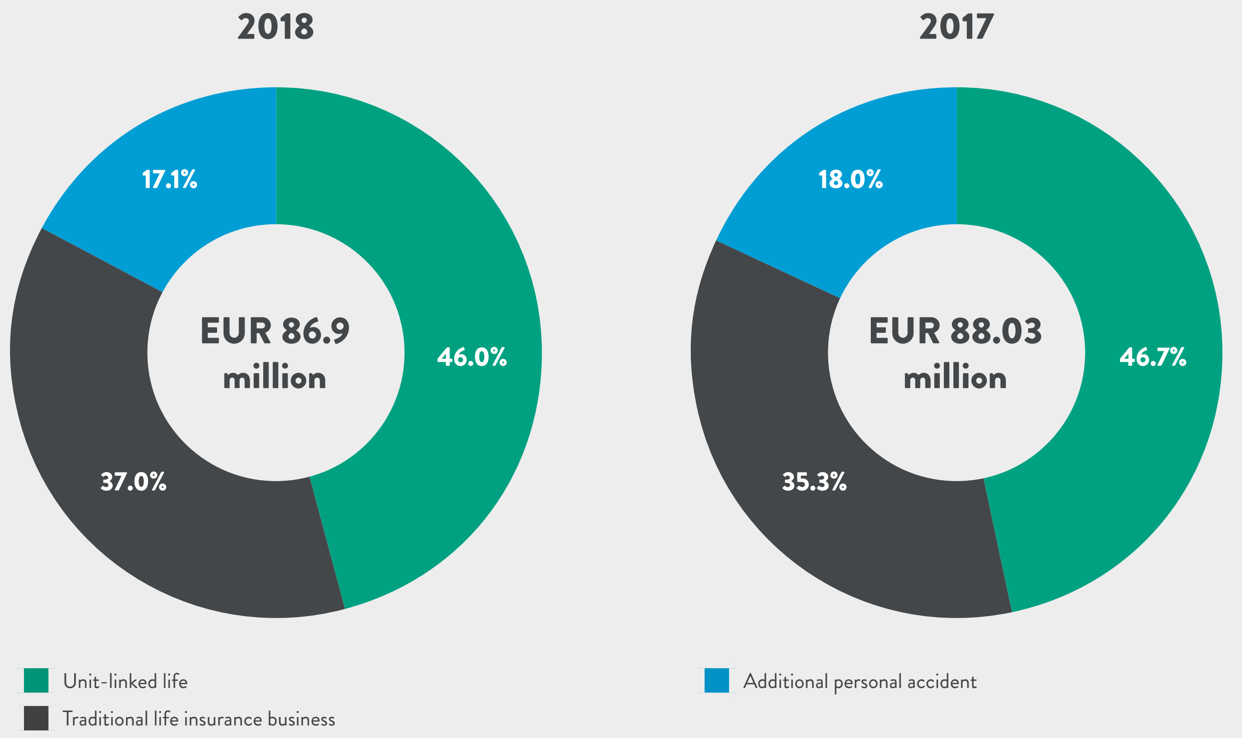
| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Zavarovalnica Sava, Slovenian part (life) | 78,512,481 | 80,880,631 | 97.1 |
| Zavarovalnica Sava, Croatian part (life) | 4,082,567 | 3,721,715 | 109.7 |
| Illyria Life | 2,096,720 | 1,708,366 | 122.7 |
| Sava Životno Osiguranje (SRB) | 2,164,054 | 1,654,286 | 130.8 |
| Total | 86,855,822 | 87,964,998 | 98.7 |

Gross premiums written by the life insurers in Slovenia grew compared to 2017. The decrease in Zavarovalnica Sava gross premiums is primarily due to the rise in the number of policy maturities. This decrease was partly offset by greater sales of new insurance policies, but the sale of new insurance did not compensate for the shortfall in premiums related to maturity, deaths and surrenders.

Gross premiums of non-domestic insurers increased, as Illyria Life and Sava Životno Osiguranje (SRB) recorded double-digit growth in gross premiums. The highest growth (30.8%) was achieved by the Serbian insurer, which intensively developed its own sales network and, in 2018, started to sell four new products. The established system for the planning and daily monitoring of activities with relevant IT support and a system for monitoring performance through target values (KPI) had a major impact on the growth in gross premiums. At the end of 2017, the same system was also established in the Kosovo insurer Illyria Life, where the positive effects of this system were already demonstrated in 2018. At the same time, the growth in gross premiums in the Kosovo insurer had a positive, stabilising impact on the sales network.

High growth was generated also by the Croatian part of Zavarovalnica Sava, which increased premiums by 9.7% in 2018, while the Croatian life insurance market recorded growth of 6.7%. Growth was slightly lower than in previous years, as the level of gross premiums was also influenced by a high number of maturities in 2018.

**Composition of consolidated gross life insurance premiums by class of business**




## Net claims incurred

**Net claims incurred; life insurance business**

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross claims paid | 86,710,037 | 72,106,572 | 120.3 |
| Net claims paid | 86,624,115 | 71,996,780 | 120.3 |
| Change in the net provision for outstanding claims | -888,298 | -253,291 | 150.7 |
| **Net claims incurred** | **85,735,816** | **71,743,489** | **119.5** |
| Change in other technical provisions* | -17,413,768 | -72,814 | 23,915.4 |
| Change in technical provisions for policyholders who bear the investment risk | -15,962,680 | 1,121,327 | -1,423.6 |
| **Net claims incurred, including the change in the mathematical and UL provisions** | **52,359,369** | **72,792,002** | **71.9** |

* These are mainly mathematical provisions.

**Net claims incurred; life insurance business**

| (EUR) | Slovenia | | | International | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | Index | 2018 | 2017 | Index |
| Gross claims paid | 83,983,307 | 70,327,201 | 119.4 | 2,726,730 | 1,779,371 | 153.2 |
| Net claims paid | 83,904,061 | 70,219,126 | 119.5 | 2,720,054 | 1,777,654 | 153.0 |
| Change in the net provision for outstanding claims | -800,504 | -212,945 | 375.9 | -87,794 | -40,346 | 217.6 |
| **Net claims incurred** | **83,103,556** | **70,006,181** | **118.7** | **2,632,260** | **1,737,308** | **151.5** |
| Change in other technical provisions* | -19,780,293 | -2,796,216 | 707.4 | 2,366,525 | 2,723,402 | 86.9 |
| Change in technical provisions for policyholders who bear the investment risk | -15,954,842 | 1,108,638 | -1439.1 | -7,838 | 12,689 | -61.8 |
| **Net claims incurred, including the change in the mathematical and UL provisions** | **47,368,422** | **68,318,603** | **69.3** | **4,990,947** | **4,473,399** | **111.6** |

* These are mainly mathematical provisions.

Unconsolidated gross claims paid for life business by Sava Re Group companies

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Zavarovalnica Sava, Slovenian part (life) | 83,983,307 | 70,327,201 | 119.4 |
| Zavarovalnica Sava, Croatian part (life) | 1,902,059 | 875,387 | 217.3 |
| Illyria Life | 450,046 | 542,541 | 83.0 |
| Sava Životno Osiguranje (SRB) | 375,637 | 361,844 | 103.8 |
| **Total** | **86,711,049** | **72,106,973** | **120.3** |

In 2018, gross claims paid in Slovenia grew by 19.4% as a result of a large number of policies maturing in 2018. In 2018, a large number of maturities related to traditional life insurance (EUR 36.1 million), while payments related to maturities of unit-linked life policies where the investment risk is borne by policyholders totalled EUR 25.2 million. Compared to the previous year, the amount of payments stemming from maturities of traditional life business increased by EUR 14.4 million, and by EUR 2.6 million in unit-linked life insurance.

As in Slovenia, high growth in gross claims in non-domestic insurers should be attributed to the number of maturities that increased in the Croatian part of Zavarovalnica Sava. Gross claims in this Zavarovalnica Sava subsidiary grew by 117.3% (due to maturities), but this did not have any significant impact on the proportion of payments at the Group level. The increase in gross claims was minimal in the Serbian insurer, while the Kosovo insurer recorded a decline in gross claims in 2018 compared to the previous year.

The movement in other technical provisions is generally the result of movements in mathematical provisions that increase over the term of policies and as portfolios mature, but decrease when claims are paid out. In 2018, Zavarovalnica Sava paid out substantially more maturity claims in Slovenia and Croatia, which pushed mathematical provisions down, whereas mathematical provisions of the insurers in Kosovo and Serbia increased in line with the ageing and growth of the portfolio.

The year-on-year change in technical provisions for policyholders who bear the investment risk of the Slovenian insurers is affected by claims settlements as well as movements in mutual fund unit prices.

## Operating expenses

Consolidated operating expenses; life insurance business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Acquisition costs | 6,882,966 | 6,257,353 | 110.0 |
| Change in deferred acquisition costs (+/-) | -480,232 | -507,646 | 94.6 |
| Other operating expenses | 17,745,824 | 17,187,356 | 103.2 |
| **Operating expenses** | **24,148,558** | **22,937,063** | **105.3** |
| Income from reinsurance commission | -57,618 | -46,498 | 123.9 |
| **Net operating expenses** | **24,090,941** | **22,890,566** | **105.2** |

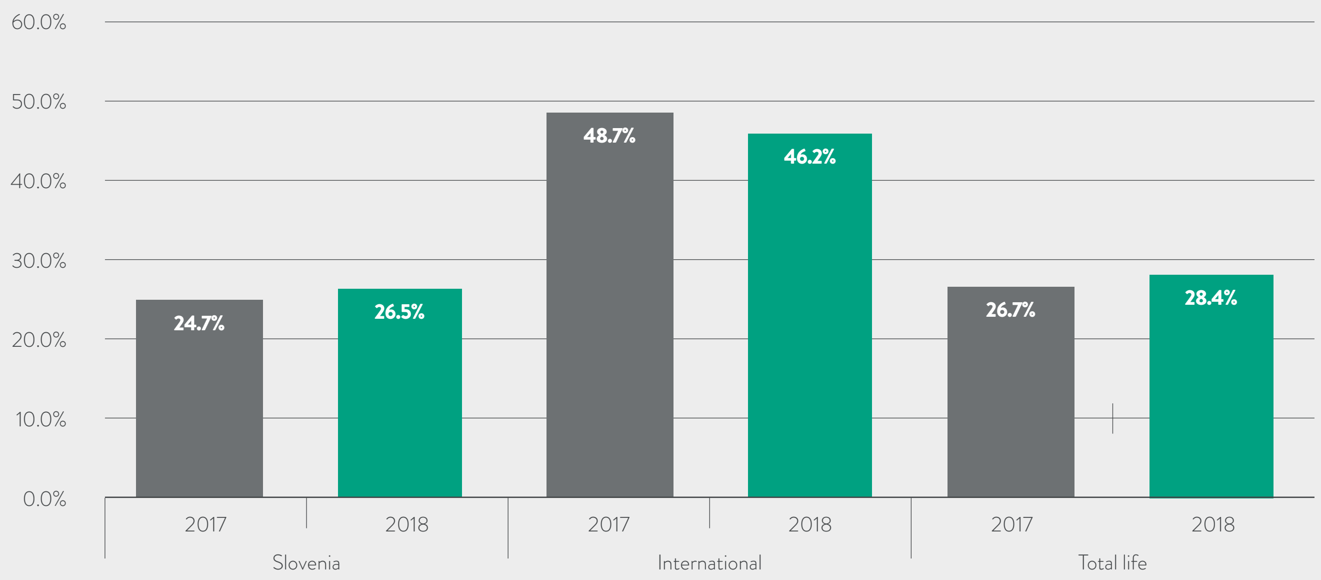
Unconsolidated gross life operating expenses of Sava Re Group companies

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Zavarovalnica Sava, Slovenian part (life) | 19,036,240 | 18,268,052 | 104.2 |
| Other Group insurers | 3,772,398 | 3,386,454 | 111.4 |
| Group non-insurance companies | 1,149,765 | 1,121,292 | 102.5 |

The increase in acquisition costs is primarily due to increased acquisition costs of the Slovenian part of Zavarovalnica Sava due to its new, expanded operations. For the same reason, the acquisition costs of other life insurers also increased.

Higher other operating expenses were driven by higher costs in all companies, with the maximum absolute increase recorded in the Slovenian part of Zavarovalnica Sava and in Sava Životno Osiguranje from Serbia (SRB). The increase in the Slovenian insurer chiefly concerned the costs of services and personnel costs, and in the Serbian insurer, personnel costs rose due to the expansion of the sales network, which was also reflected in the high growth in gross premiums.

Gross expense ratio; life insurance business

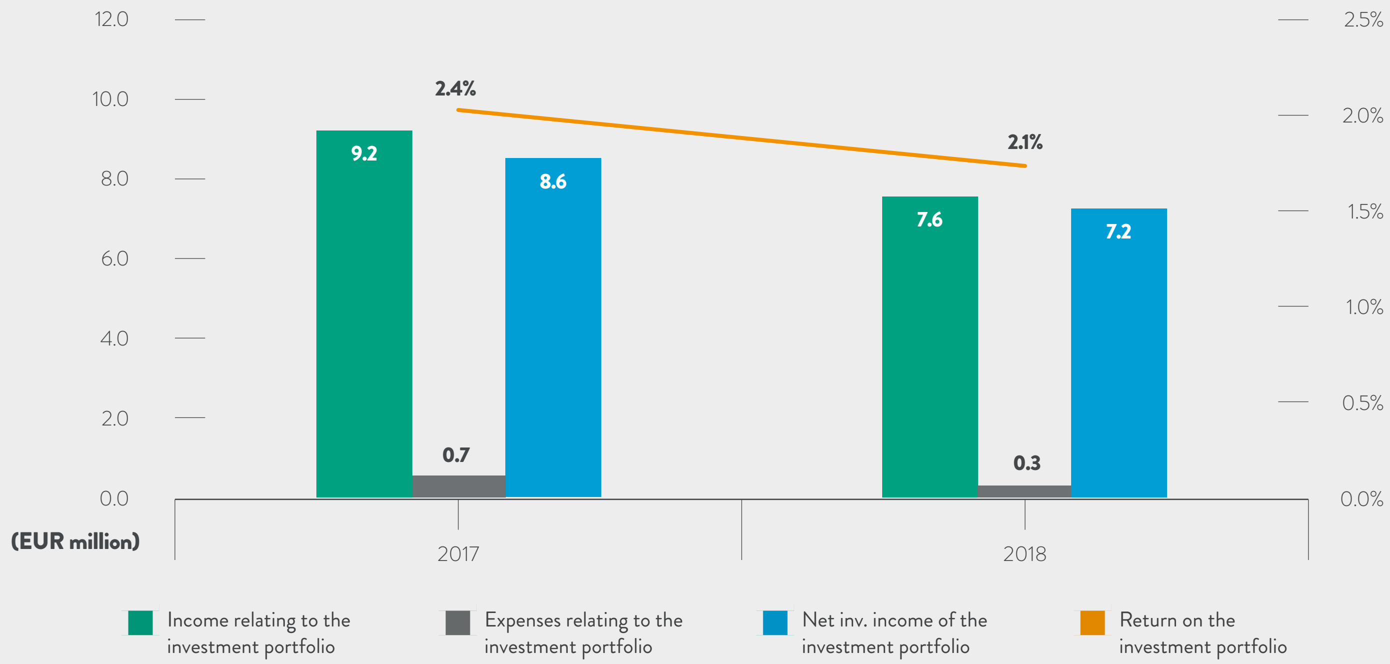



The consolidated gross expense ratio of the Slovenian companies increased by 1.8 percentage point year on year, which is a result of decreased gross premiums due to maturity, while acquisition costs increased owing to greater sales of new insurance policies.

The consolidated gross expense ratio of non-Slovenian life insurers dropped by 2.5 p.p. due to the increase in gross premiums written. In contrast, the consolidated gross expenses of the non-Slovenian companies increased due to the expansion of sales networks and business growth.

## Net investment income

Income, expenses and the net investment income relating to the investment portfolio; life insurance




The net investment income of the investment portfolio of life insurance business declined by EUR 1.4 million year on year. Net investment income declined in 2018, due mainly to lower interest income (EUR 1.2 million) and lower realised gains on the sale of investments (EUR 0.2 million). Expenses relating to the investment portfolio in the observed period totalled EUR 0.3 million or EUR 0.4 million less than in 2017. The investment return in 2018 was 2.1%.

## 8.4 Pensions

The pensions segment comprises the operations of the following companies:

- Sava Pokojninska
- Sava Penzisko Društvo

In the 2017 annual report, Sava Pokojninska was included in the life segment. The pensions segment covering both pension companies has been monitored separately since the first quarter of 2018. Sava Penzisko Društvo has been included in the Group's consolidated accounts since 31 March 2018.

The income statement and statement of financial position by operating segment are presented in the notes to the financial statements, section 17.4.36 "Segment reporting".

### Savings part

#### Other technical and other income

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Other technical income | 1,556,410 | 1,463,728 | 106.3 |
| Other income | 2,723,251 | 11,339 | 24,016.7 |
| Total | 4,279,661 | 1,475,067 | 290.1 |

Other technical income includes income of the Slovenian pension company relating to entry charges paid by customers, exit charges, management that the company is entitled to for the management of the life cycle funds MOJI Skladi Življenjskega Cikla, and overheads charged to customers when transferring assets from the savings part to the annuity part.

Other income includes the income of the North Macedonian pension company relating to entry charges paid by customers and management fees, which belong to the company in the management of the mandatory and voluntary pension funds.

#### Movement in assets relating to the life cycle funds MOJI Skladi Življenjskega Cikla (Sava Pokojninska, Slovenia)

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Balance of fund assets at the start of the period (01/01) | 128,862,922 | 119,926,669 | 107.5 |
| Gross fund inflows | 11,543,319 | 11,030,607 | 104.6 |
| Gross fund outflows | 5,507,194 | 5,945,042 | 92.6 |
| Transfers of assets | 1,306,692 | 785,698 | 166.3 |
| Fund return | -1,076,758 | 3,266,853 | -33.0 |
| Entry and exit costs | 202,917 | 201,863 | 100.5 |
| Balance of fund assets at the end of the period (31/12) | 134,926,064 | 128,862,922 | 104.7 |

In 2018, gross inflows into the group of life cycle funds MOJI Skladi Življenjskega Cikla (MY life-cycle funds) of the Slovenian pension company increased by 4.6% compared to the previous year. This was due to the growth in the number of policyholders.

In 2018, gross outflows from the group of life cycle funds MOJI Skladi Življenjskega Cikla (MY life-cycle funds) of the Slovenian pension company decreased by 7.4% compared to the previous year. Gross outflows relate to regular or extraordinary termination. The largest portion of the latter refers to withdrawal from insurance.

In 2018, the company carried out transfers from other contractors in the total amount of EUR 1.9 million, while transfers to other contractors totalled EUR 0.6 million, so that the net effect of transfers was positive.

In 2018, income from entry and exit charges of the group of life cycle funds MOJI Skladi Življenjskega Cikla (MY life-cycle funds) increased by 0.5% compared to the previous year.

#### Operations of the mandatory and voluntary fund of the North Macedonian pension company

| (EUR) | 4–12/2018 |
|---|---|
| Gross fund inflows | 43,830,762 |
| Gross fund outflows | 621,009 |
| Transfers of assets | 89,092 |
| Fund return | 8,128,575 |
| Entry and exit costs | 1,105,565 |
| Net value of funds as at 31 December 2018 | 502,570,316 |

From April to December 2018, gross inflows into the mandatory and voluntary fund of the North Macedonian pension company amounted to EUR 43.8 million, and gross fund outflows totalled EUR 0.6 million. Fund return in the period April–December 2018 amounted to EUR 8.1 million. As at 31 December 2018, net value of fund assets under management totalled EUR 502.6 million, representing a 13.4 % increase compared to 31 December 2017.

The value of assets of the funds under management is not disclosed in the statement of financial position of Sava Penzisko, since the North Macedonian pension company is only an asset manager.

## Annuity part

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross premiums written | 2,219,043 | 2,118,731 | 104.7 |
| Gross claims paid | 702,771 | 451,910 | 155.5 |
| Change in other net technical provisions (+/-) | -1,589,897 | -1,902,017 | 83.6 |

Gross premiums written relate to the KS MRS Fund[48]. Until June 2015, the policyholders were insured in the long-term business fund for supplementary pension annuity insurance (KS DPRZ)[49], and from June 2015 onwards based on the new pension scheme, which is in line with the ZPIZ-2, in the KS MRS. Gross premiums written of the annuity fund increased by 4.7% in 2018 due to more policyholders opting for additional pension annuities than in 2017.

Gross claims include the payment of supplementary pension annuities from both KS DPRZ and KS MRS annuity funds. Payments of annuities increased by 55.5% in 2018 compared to the previous year owing to a higher number of policyholders receiving the annuity.

Changes in technical provisions relate to long-term business funds for the supplementary pension annuity insurance KS DPRZ and KS MRS. The change in other net technical provisions is the result of premiums paid, claims and valuation.

## Operating expenses

### Operating expenses; pensions

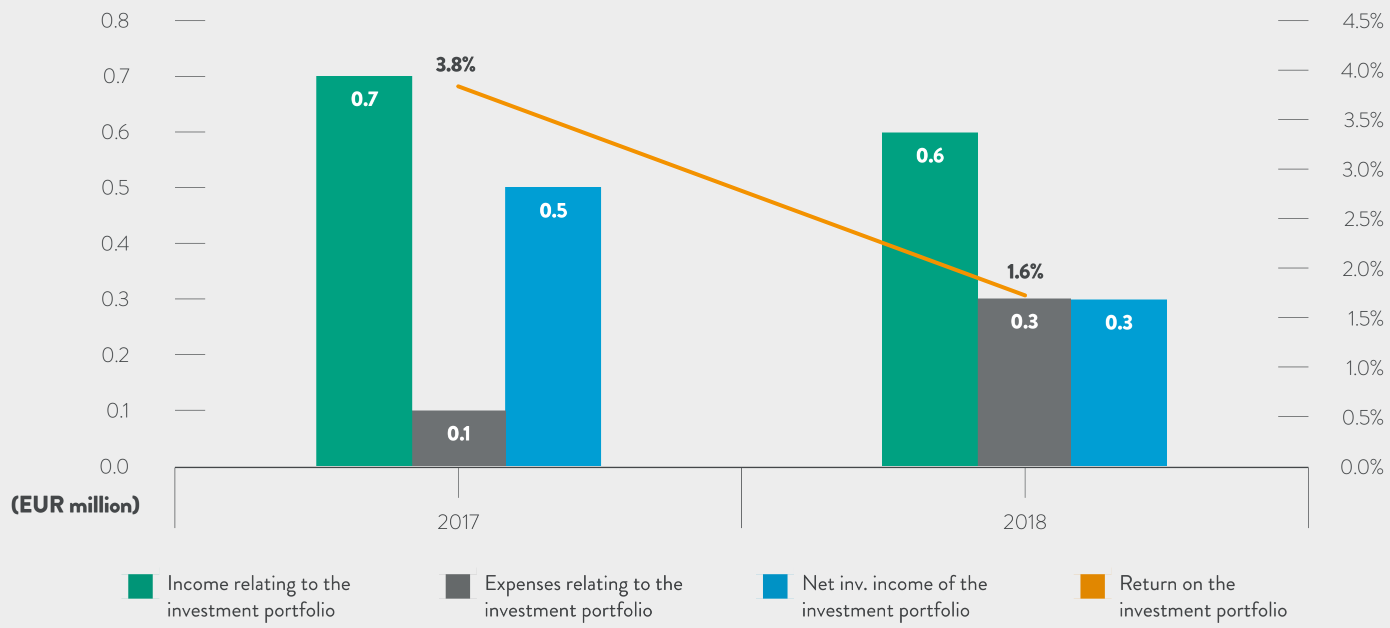
| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Acquisition costs | 19,403 | 31,170 | 62.2 |
| Other operating expenses | 2,654,674 | 1,352,290 | 196.3 |
| **Operating expenses** | **2,674,077** | **1,383,460** | **193.3** |

In 2018, operating expenses increased by 93.3% compared to the previous year as a result of the integration of the North Macedonian pension company in the Group as of 31 March 2018. In 2018, operating expenses of the Slovenian pension company decreased by 6.5% compared to the previous year.

[48] Long-term business fund for MOJ Rentni Sklad (My annuity fund).
[49] Long-term business fund for supplementary pension annuity insurance.

## Net investment income

### Income, expenses and the net investment income relating to the investment portfolio (EUR); pensions[50]




The net investment income of the investment portfolio of pension companies totalled EUR 0.3 million in 2018, down by EUR 0.2 million from 2017. Lower net investment income was largely due to higher expenses from changes in fair value and losses on the disposal of FVPL assets (EUR 0.2 million). Return on the investment portfolio in 2018 was 1.6%.

## 8.5 Other

This "other" segment includes a subsidiary TBS Team 24 and two associates, ZTSR and G2I (consolidated using the equity method). The first consolidation of the Sava Re Group upon the acquisition of TBS Team 24 was carried out on 31 January 2018. The "other" segment contributed EUR 0.7 million (EUR 6.0 million of income and EUR 5.3 million of expenses, including investment expenses) to the consolidated result in 2018.

[50] The table includes the portfolio of Sava pokojninska (excluding financial contracts) and Sava Penzisko Društvo (excluding the return on the funds because the assets managed by Sava Penzisko Društvo are not disclosed in its statement of financial position).

# 9 Financial position of the Sava Re Group

**Strength**

Financial strength and stability

As at 31 December 2018, total assets of the Sava Re Group stood at EUR 1,705.9 million, a decrease of 0.1% from year-end 2017. Below we set out items of assets and liabilities in excess of 5% of total assets or liabilities as at 31 December 2018, or items that changed by more than 2% of equity.

## 9.1 Assets

Consolidated total assets by type

| (EUR) | 31.12.2018 | As % of total as at 31/12/2018 | 31/12/2017 | As % of total as at 31/12/2017 |
|---|---|---|---|---|
| **ASSETS** | **1,705,947,263** | **100.0%** | **1,708,348,067** | **100.0%** |
| Intangible assets | 37,121,118 | 2.2% | 22,712,944 | 1.3% |
| Property, plant and equipment | 42,893,432 | 2.5% | 45,438,014 | 2.7% |
| Deferred tax assets | 1,950,245 | 0.1% | 2,107,564 | 0.1% |
| Investment property | 20,643,019 | 1.2% | 15,364,184 | 0.9% |
| Financial investments in associates | 462,974 | 0.0% | 0 | 0.0% |
| Financial investments | 1,008,097,470 | 59.1% | 1,038,125,019 | 60.8% |
| Funds for the benefit of policyholders who bear the investment risk | 204,818,504 | 12.0% | 227,228,053 | 13.3% |
| Reinsurers' share of technical provisions | 27,292,750 | 1.6% | 30,787,241 | 1.8% |
| Investment contract assets | 135,586,965 | 7.9% | 129,622,131 | 7.6% |
| Receivables | 140,550,011 | 8.2% | 138,455,525 | 8.1% |
| Deferred acquisition costs | 19,759,234 | 1.2% | 18,507,194 | 1.1% |
| Other assets | 2,064,220 | 0.1% | 2,043,395 | 0.1% |
| Cash and cash equivalents | 64,657,431 | 3.8% | 37,956,119 | 2.2% |
| Non-current assets held for sale | 49,890 | 0.0% | 684 | 0.0% |

### 9.1.1 Intangible assets

As at 31 December 2018, intangible assets totalled EUR 37.1 million, representing a 63.4% increase compared to 31 December 2017. The reason lies in the fact that goodwill increased by EUR 14.5 million as a result of acquisitions. For more information, see section 17.2 "Business combinations and overview of Group companies".

### 9.1.2 Investment portfolio

The investment portfolio consists of the following statement of financial position items: financial investments, investment property, financial investments in associated companies, and cash and cash equivalents.

**Sava Re Group investment portfolio by class of asset**

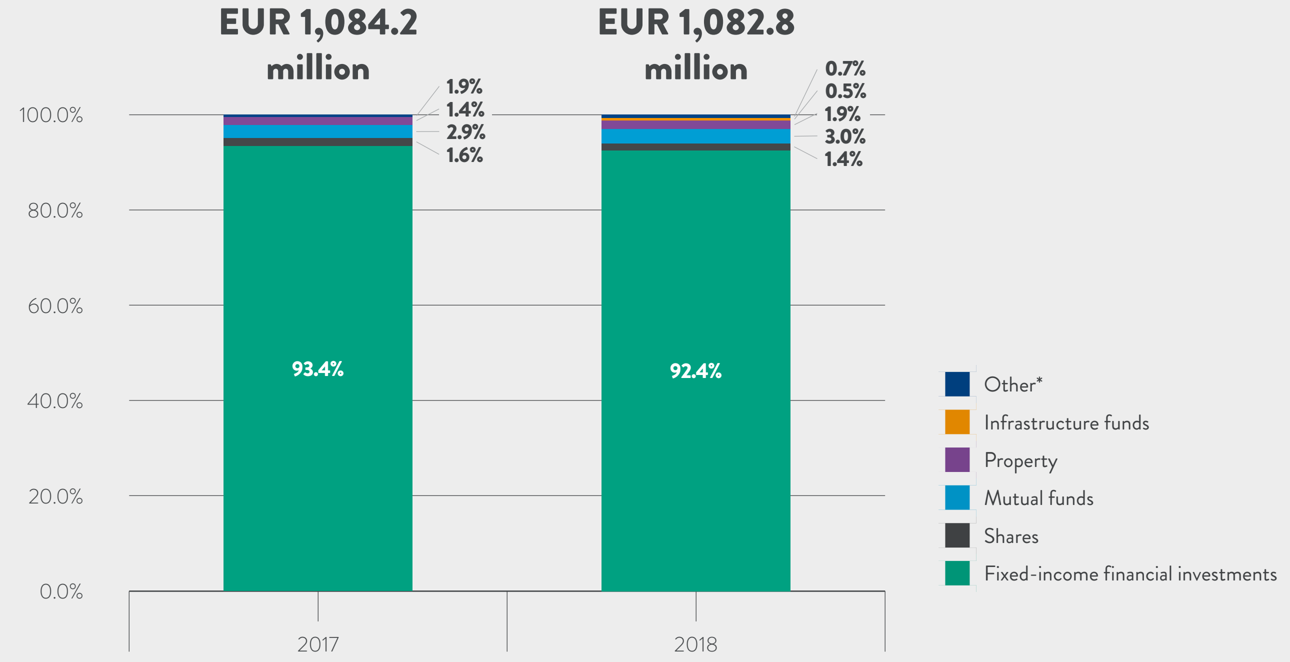
| (EUR) | 2018 | 2017 | Absolute change | Index |
|---|---|---|---|---|
| Deposits | 27,740,285 | 21,605,211 | 6,135,074 | 128.4 |
| Government bonds | 550,716,600 | 566,515,923 | -15,799,323 | 97.2 |
| Corporate bonds | 368,961,240 | 394,196,963 | -25,235,723 | 93.6 |
| Shares | 15,675,616 | 17,524,834 | -1,849,218 | 89.4 |
| Mutual funds | 32,347,639 | 31,857,756 | 489,883 | 101.5 |
| Infrastructure funds | 5,264,540 | 0 | 5,264,540 | |
| Loans granted and other investments | 1,116,240 | 591,985 | 524,255 | 188.6 |
| Deposits with cedants | 6,275,310 | 5,832,347 | 442,963 | 107.6 |
| **Total financial investments** | **1,008,097,470** | **1,038,125,019** | **-30,027,549** | **97.1** |
| Financial investments in associates | 462,974 | 0 | 462,974 | |
| Investment property | 20,643,019 | 15,364,184 | 5,278,835 | 134.4 |
| Cash and cash equivalents | 53,584,104 | 30,746,332 | 22,837,772 | 174.3 |
| **Total investment portfolio** | **1,082,787,567** | **1,084,235,535** | **-1,447,968** | **99.9** |
| Funds for the benefit of policyholders who bear the investment risk | 215,891,831 | 234,437,840 | -18,546,009 | 92.1 |
| Financial investments | 204,818,504 | 227,228,053 | -22,409,549 | 90.1 |
| Cash and cash equivalents | 11,073,327 | 7,209,787 | 3,863,540 | 153.6 |
| Investment contract assets | 135,586,965 | 129,622,131 | 5,964,834 | 104.6 |

* Cash and cash equivalents of policyholders who bear the investment risk (2018: EUR 11.1 million; 2017: EUR 7.2 million) are excluded from the investment portfolio.

As at 31 December 2018, the Group's investment portfolio totalled EUR 1,082.8 million and was EUR 1.4 million smaller compared to year-end 2017.

As at 31 December 2018, investment property totalled EUR 20.6 million, or EUR 5.3 million more than as at year-end 2017. Investments further increased due to the purchase of a property in the amount of EUR 3.7 million.

**Composition of the investment portfolio**

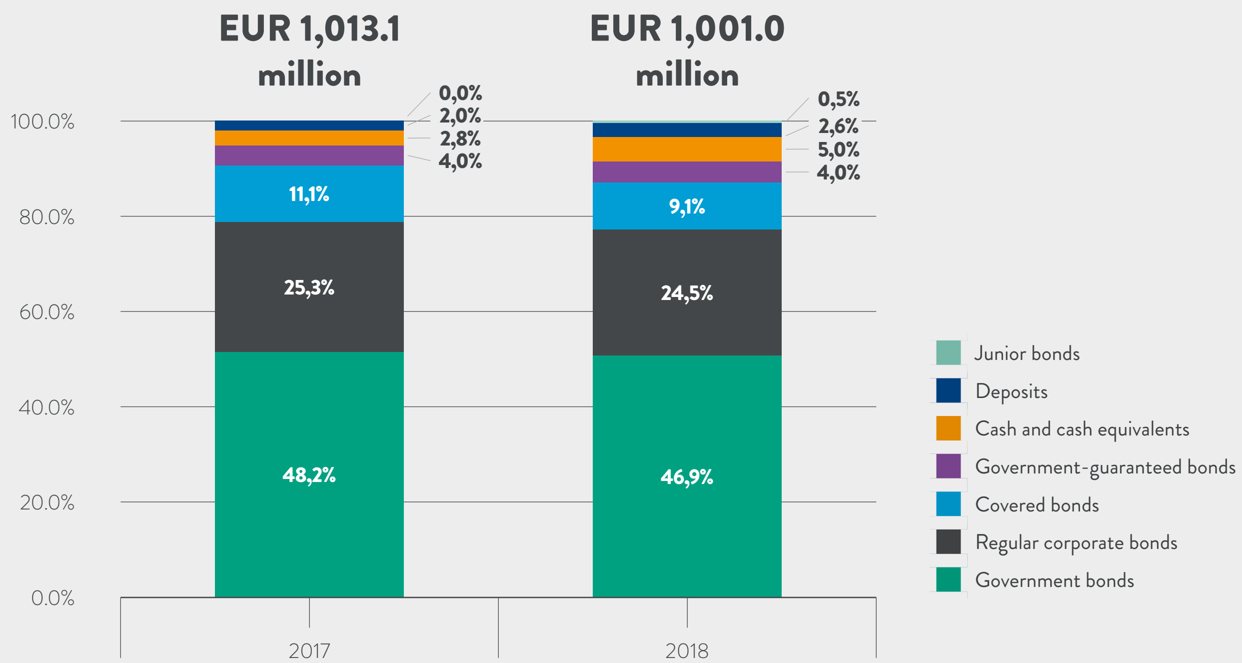



* The "other" item comprises deposits with cedants, loans granted and financial investments in associates.

As at 31 December 2018, the value of fixed-income investments stood at EUR 1,001.0 million (31/12/2017: EUR 1,013.1 million) and included:

- government bonds of EUR 507.7 million, or 46.9%, (31/12/2017: EUR 523.0 million; 48.2%),
- regular corporate bonds of EUR 265.1 million, or 24.5%, (31/12/2017: EUR 273.8 million; 25.3%),
- covered bonds of EUR 98.1 million, or 9.1%, (31/12/2017: EUR 120.4 million; 11.1%),
- government guaranteed corporate bonds of EUR 43.0 million, or 4.0%, (31/12/2017: EUR 43.6 million; 4.0%),
- cash and cash equivalents of EUR 53.6 million, or 4.9%, (31/12/2017: EUR 30.7 million; 2.8%),
- deposits of EUR 27.7 million, or 2.6%, (31/12/2017: EUR 21.6 million; 2.0%), and
- junior bonds of EUR 5.7 million, or 0.5%.

**Composition of fixed-income investments**




Changes in the composition of the investment portfolio of the Sava Re Group:

- decrease of 0.9 percentage points in the proportion of fixed-income investments;
- first investments in infrastructure funds, which account for 0.5% of the investment portfolio.

In 2018, the slight decrease in and composition of fixed-income investments were largely the result of the following:

- reduced risk exposure to government bonds by EUR 15.8 million (decrease in the structural share of fixed-income investments by 1.3 percentage points);
- reduced risk exposure to conventional corporate, covered and subordinated bonds in the amount of EUR 25.2 million. The value of investments in conventional corporate bonds decreased by EUR 8.7 million (decrease in the structural share of fixed-income investments by 0.8 percentage point), the value of covered bonds decreased by EUR 22.3 million (decrease in the structural share of fixed-income investments by 2.0 percentage points), whereas the value of subordinated corporate bonds increased by EUR 5.7 million (increase in the structural share of fixed-income investments of 0.5 percentage points);
- increase in cash and cash equivalents of EUR 22.8 million (increase in the proportion of fixed-income investments of 0.6 percentage points).

### 9.1.3 Funds for the benefit of policyholders who bear the investment riske

Zavarovalnica Sava is the Group's only company to market life products where the investment risk is borne by policyholders. The funds of these policyholders are recorded as financial investments (mainly in mutual funds selected by policyholders) and cash. As at 31 December 2018, financial investments totalled EUR 204.8 million, while cash and cash equivalents stood at EUR 11.1 million. Thus funds decreased by EUR 18.5 million compared to 31 December 2017. The decline is the result of negative cash flows of EUR 11.6 million, revaluation to market value (- EUR 7.8 million) and the change in accrued interest for debt securities (+ EUR 0.8 million).

### 9.1.4 Investment contract assets

The investment contract assets item includes liability fund assets relating to the life cycle funds MOJI Skladi Življenjskega Cikla managed by the Sava Pokojninska pension company for the benefit of policyholders since 1 January 2016. This group consists of three long-term business funds: Moj Dinamični Sklad (My Dynamic Fund, MDF) and Moj Uravnoteženi Sklad (My Balanced Fund, MBF) (where policyholders bear the full investment risk) and Moj Zajamčeni Sklad (My Guaranteed Fund, MGF), where policyholders bear the investment risk in excess of the guaranteed funds. As at 31 December 2018, investment contract assets totalled EUR 135.6 million, up 4.6% compared to 31 December 2017. The increase in investment contract assets was mainly due to net payments (EUR 7.2 million, with EUR 14.2 million of inflows and EUR 7.0 million of outflows in 2018). The change in the fair value reserve was negative (-EUR 1.1 million).

As at 31 December 2018, financial investments accounted for 85.3% of all assets, the rest consisted of receivables and cash and cash equivalents.

Like the previous category, the movement in investment contract assets depends on new premium contributions, outflows and changes in the unit prices of funds.

### 9.1.5 Receivables

Receivables increased by 1.5 % or EUR 2.1 million compared to year-end 2017.

The increase was partly due to the increase in receivables arising from primary insurance business, which rose by EUR 2.2 million compared to 31 December 2017. The majority of the increase relates to Slovenian non-life business, amounting to EUR 5.7 million due to the increase in gross premiums written, which impacted the overall growth of this item. The age structure shows an increase in not-past-due receivables arising out of primary insurance operations. The increase in receivables from primary insurance business is also recorded by the international non-life segment (EUR 0.9 million) and the international life segment (EUR 0.4 million) on account of the growth in gross premiums.

Receivables from primary insurance operations in the reinsurance segment decreased by EUR 4.8 million due to a decrease in the volume of operations.

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## 9.2 Equity and liabilities

**Consolidated total equity and liabilities by type**

| (EUR) | 31.12.2018 | As % of total as at 31/12/2018 | 31/12/2017 | As % of total as at 31/12/2017 |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | **1,705,947,263** | **100.0%** | **1,708,348,067** | **100.0%** |
| Equity | 340,175,455 | 19.9% | 316,116,895 | 18.5% |
| Share capital | 71,856,376 | 4.2% | 71,856,376 | 4.2% |
| Capital reserves | 43,035,948 | 2.5% | 43,035,948 | 2.5% |
| Profit reserves | 183,606,914 | 10.8% | 162,548,076 | 9.5% |
| Own shares | -24,938,709 | -1.5% | -24,938,709 | -1.5% |
| Fair value reserve | 11,613,059 | 0.7% | 18,331,697 | 1.1% |
| Reserve due to fair value revaluation | 836,745 | 0.0% | 667,518 | 0.0% |
| Retained earnings | 35,140,493 | 2.1% | 33,093,591 | 1.9% |
| Net profit/loss for the period | 21,843,940 | 1.3% | 14,557,220 | 0.9% |
| Translation reserve | -3,368,928 | -0.2% | -3,353,304 | -0.2% |
| Equity attributable to owners of the controlling company | 339,625,838 | 19.9% | 315,798,413 | 18.5% |
| Non-controlling interest in equity | 549,617 | 0.0% | 318,482 | 0.0% |
| Technical provisions | 920,491,487 | 54.0% | 931,398,362 | 54.5% |
| Technical provision for the benefit of life insurance policyholders who bear the investment risk | 210,032,637 | 12.3% | 226,527,893 | 13.3% |
| Other provisions | 7,730,247 | 0.5% | 7,600,613 | 0.4% |
| Deferred tax liabilities | 3,529,235 | 0.2% | 5,781,494 | 0.3% |
| Investment contract liabilities | 135,441,508 | 7.9% | 129,483,034 | 7.6% |
| Other financial liabilities | 243,095 | 0.0% | 245,205 | 0.0% |
| Liabilities from operating activities | 54,736,601 | 3.2% | 60,598,188 | 3.5% |
| Other liabilities | 33,566,998 | 2.0% | 30,596,383 | 1.8% |

### 9.2.1 Equity

Equity increased by 7.6% or EUR 24.0 million compared to year-end 2017. Equity increased by the amount of net profit of EUR 43.0 million. In addition, equity decreased by EUR 12.4 million on account of dividend payments and by EUR 6.6 million due to the lower fair value reserve.

### 9.2.2 Technical provisions

Gross technical provisions are the largest item of equity and liabilities. As at 31 December 2018, they were 1.2% or EUR 10.9 million higher than at year-end 2017.

**Movement in consolidated gross technical provisions**

| (EUR) | 31/12/2018 | 31/12/2017 | Index |
|---|---|---|---|
| Gross unearned premiums | 184,101,835 | 171,857,259 | 107.1 |
| Gross mathematical provisions | 254,849,366 | 271,409,915 | 93.9 |
| Gross provision for outstanding claims | 470,057,561 | 479,072,582 | 98.1 |
| Gross provision for bonuses, rebates and cancellations | 1,477,666 | 1,780,231 | 83.0 |
| Other gross technical provisions | 10,005,059 | 7,278,375 | 137.5 |
| **Gross technical provisions** | **920,491,487** | **931,398,362** | **98.8** |

The gross provisions for the reinsurance segment rose by 0.5% or EUR 0.8 million. Unearned premiums decreased by EUR 2.8 million due to less premiums collected, and claims provisions rose by EUR 3.3 million as a result of an increase in the size of this portfolio in the previous year and due to major losses in the second half of 2018 in respect of which claims have not yet been paid.

Gross provisions in the non-life segment at year-end 2018 were 1.1% or EUR 5.6 million higher as the result of a EUR 15.0 million increase in unearned premiums, which corresponds to the increased scope of engagement in non-life Group companies. Gross provisions for outstanding claims decreased by EUR 11.6 million, which reflected the settlement of some major, previously reserved claims and the release of claims provisions from previous years.

Gross provisions for traditional life policies at year-end 2018 were 6.9%, or EUR 18.2 million lower than at the previous year end, mainly as a result of maturity payments.

Other technical provisions (bonuses and discounts, unexpired risks) accounted for a smaller share and grew by a total of EUR 2.4 million, in particular owing to higher provisions for unexpired risks in Slovenia non-life (primarily due to higher unearned premiums, which constitute the basis for the calculation of these provisions).

### 9.2.3 Technical provisions for the benefit of life insurance policyholders who bear the investment risk

As at 31 December 2018, technical provisions for the benefit of policyholders who bear the investment risk declined by 7.3% or EUR 16.5 million compared to year-end 2017. This provision moves in line with funds of policyholders who bear the investment risk (depending on contributions, outflows and movement in fund unit prices).

### 9.2.4 Investment contract liabilities

The investment contract liabilities of Sava Pokojninska totalled EUR 135.4 million at 31 December 2018, up 4.6% or EUR 6.0 million from year-end 2017. Their movement is in line with the investment contract assets, driven largely by new premium contributions, payouts and changes in the unit prices of funds.

## 9.3 Capital structure

As at 31 December 2018, the Sava Re Group held EUR 340.2 million of equity, and was thus financed exclusively through equity.

## 9.4 Cash flow

In 2018, the Sava Re Group had a positive operating cash flow of EUR 0.3 million (2017: EUR 31.4 million) that was driven by the cash flow from its core activity (insurance and reinsurance business), which is the best indicator of the difference between premium inflow and claims and costs paid. Cash flow is lower compared to the previous year due to a larger volume of claims paid for non-life insurance and maturity claims.

In 2018, the Sava Re Group recorded a negative cash flow from financing of EUR 12.4 million (2017: EUR 38.2 million). In 2018, this was influenced by dividend payments, and in 2017 it was additionally influenced by the repayment of subordinated debt.

Net cash flow in 2018 was EUR 21.3 million above the year-on-year figure as a result of higher cash flow from investments owing to the tactical decision taken by the investment portfolio managers not to reinvest the assets as a result of the market situation on the cut-off date.

# 10 Human resources management[51]

## 10.1 Strategic guidelines for human resources management[52]

The Sava Re Group follows the strategic guidelines for human resources management as set out below:

- prudent recruitment of personnel and retaining the best talents,
- developing key and promising employees and the training of managers,
- effective leadership and motivation of employees, and concern for the well-being of employees and good relations,
- providing work in a safe and healthy working environment, and
- promoting a culture of mutual trust.

## 10.2 Key activities in human resources management in 2018[53]

In 2018, human resources activities centred on:

- gradual planning, analysis and development of leadership competencies,
- setting up a system of management by objectives,
- conducting annual performance appraisal interviews in all Group companies and
- reorganising and optimising business processes in line with the needs of each Group company.

[51] GRI 102-8
[52] GRI 103-1, 103-2, 103-3
[53] GRI 103-1, 103-2, 103-3

## 10.3 Recruitment and staffing levels

Recruitment has been carefully planned and implemented in accordance with the objectives and requirements of each company. In line with the Group's strategic focus and goals, we encourage Group internal recruitment.

**Full-time equivalent employees as at year end**

| | 31/12/2018 | 31/12/2017 | Change |
|---|---|---|---|
| Zavarovalnica Sava | 1,192.5 | 1,231.0 | -39 |
| Sava Neživotno Osiguranje (SRB) | 330.8 | 339.3 | -9 |
| Sava Osiguruvanje (MKD) | 196.8 | 193.8 | 3 |
| Illyria | 140.5 | 178.5 | -38 |
| Sava Osiguranje (MNE) | 129.0 | 132.5 | -4 |
| Sava Re | 110.1 | 96.5 | 14 |
| Sava Životno Osiguranje (SRB) | 80.4 | 71.5 | 9 |
| Illyria Life | 57.0 | 29.9 | 27 |
| Sava Car | 40.8 | 39.5 | 1 |
| Sava Penzisko Društvo | 31.0 | 0.0 | 31 |
| ZM Svetovanje | 30.0 | 28.0 | 2 |
| TBS Team 24 | 29.2 | 0.0 | 29 |
| Sava Agent | 20.5 | 20.0 | 1 |
| Sava Pokojninska | 13.0 | 14.4 | -1 |
| Ornatus KC | 9.0 | 9.0 | 0 |
| Sava Station | 6.3 | 5.0 | 1 |
| **Total** | **2,416.7** | **2,388.8** | **28** |

* TBS Team 24 and Sava Penzisko Društvo were not Group companies in 2017.

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The tables below give details on employees (under employment contracts) by various criteria.

## 10.3.1 Number of employees as at year end[54]

| | 31/12/2018 | 31/12/2017 | Change |
|---|---|---|---|
| Zavarovalnica Sava | 1,269 | 1,310 | -41 |
| Sava Neživotno Osiguranje (SRB) | 355 | 364 | -9 |
| Sava Osiguruvanje (MKD) | 210 | 203 | 7 |
| Illyria | 143 | 181 | -38 |
| Sava Osiguranje (MNE) | 138 | 144 | -6 |
| Sava Re | 118 | 103 | 15 |
| Sava Životno Osiguranje (SRB) | 98 | 90 | 8 |
| Illyria Life | 58 | 67 | -9 |
| Sava Car | 52 | 50 | 2 |
| Sava Agent | 46 | 50 | -4 |
| Sava Penzisko Društvo | 33 | 0 | 33 |
| ZM Svetovanje | 30 | 28 | 2 |
| TBS Team 24 | 30 | 0 | 30 |
| Sava Pokojninska | 13 | 15 | -2 |
| Sava Station | 10 | 8 | 2 |
| Ornatus KC | 9 | 9 | 0 |
| Total | 2,612 | 2,622 | -10 |

* TBS Team 24 and Sava Penzisko Društvo were not Group companies in 2017.

The Sava Re Group was joined by three new companies in 2018: TBS Team 24 from Slovenia, Sava Penzisko Društvo from North Macedonia and Energoprojekt Garant from Serbia.

Major changes in the number of employees were recorded in Zavarovalnica Sava in Illyria. The number of employees decreased due to the reorganisation, retirement, employee turnover among agents and the termination of employment relationships on the basis of mutual consent. Most departures were in sales.

Lower personnel numbers at Zavarovalnica Sava were achieved through optimisation of the internal audit.

[54] GRI 102-7

### Number of employees by type of employment (part-time, full-time) as at year end[55]

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Type of employment | Number | As % of total | Number | As % of total |
| Part-time | 205 | 7.8 | 252 | 9.6 |
| Full-time | 2,407 | 92.2 | 2,370 | 90.4 |
| Total | 2,612 | 100.0 | 2,622 | 100.0 |

As at year-end 2018, 2,407 persons were employed on a full-time basis (92.2%) and 205 part time (7.8%). Compared to the previous year, the proportion of part-time employees dropped mainly in Illyria Life and Sava Car.

### Number of employees by type of contract as at year end[56]

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Type of contract | Number | As % of total | Number | As % of total |
| Fixed-term contract | 422 | 16.2 | 756 | 28.8 |
| Contract of indefinite duration | 2,190 | 83.8 | 1,866 | 71.2 |
| Total | 2,612 | 100.0 | 2,622 | 100.0 |

As at year-end 2018, 2,190 employees were employed under contracts of indefinite duration (83.8%) and 422 under fixed-term contracts (16.2%). The significant reduction in the number of employees with fixed-term employment contracts compared to 2017 was the result of legal restrictions on the duration of fixed-term employment in Serbia and Kosovo.

### Employees covered by collective bargaining agreements as at year end[57]

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Employees covered by the collective bargaining system | Number | As % of total | Number | As % of total |
| Employees covered by the collective bargaining agreement | 2,487 | 95.2 | 2,489 | 94.9 |
| Employees not covered by the collective bargaining agreement | 125 | 4.8 | 133 | 5.1 |
| Total | 2,612 | 100.0 | 2,622 | 100.0 |

As at year-end 2018, the majority of employees were covered by the collective agreement[58]. The ratio did not change significantly compared to 2017.

[55] GRI 102-8
[56] GRI 102-8
[57] GRI 102-41
[58] GRI 102-41

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### Employees by level of education as at year end[59]

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Level of formal education | Number | As % of total | Number | As % of total |
| Primary and lower secondary education | 11 | 0.4 | 14 | 0.5 |
| Secondary education | 1,142 | 43.7 | 1,233 | 47.0 |
| Higher education | 323 | 12.4 | 307 | 11.7 |
| University education | 1,010 | 38.7 | 965 | 36.8 |
| Master's degree and doctorate | 126 | 4.8 | 103 | 3.9 |
| Total | 2,612 | 100.0 | 2,622 | 100.0 |

A major change was recorded in the number of employees with secondary or university-level education. This change was the result of the number of departures of employees with secondary-level education and arrivals of employees with university education. The largest employee group (2018: 43.7%) has secondary-level education, as most of them are in insurance sales.

### Employees by age group as at year end[60]

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Age group | Number | As % of total | Number | As % of total |
| From 20 to 25 | 78 | 3.0 | 84 | 3.2 |
| From 26 to 30 | 228 | 8.7 | 251 | 9.6 |
| From 31 to 35 | 344 | 13.2 | 343 | 13.1 |
| From 36 to 40 | 471 | 18.0 | 483 | 18.4 |
| From 41 to 45 | 477 | 18.3 | 474 | 18.1 |
| From 46 to 50 | 396 | 15.2 | 421 | 16.1 |
| From 51 to 55 | 325 | 12.4 | 300 | 11.4 |
| over 56 | 293 | 11.2 | 266 | 10.1 |
| Total | 2,612 | 100.0 | 2,622 | 100.0 |

The age structure indicates that despite departures and arrivals, most of the employees are aged 36 to 50 years (2018: 1,344 employees, representing 51.5% of all employees), as in the previous year.

### Employees by gender as at year end [61]

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Gender | Number | As % of total | Number | As % of total |
| Women | 1,502 | 57.5 | 1,446 | 55.1 |
| Men | 1,110 | 42.5 | 1,176 | 44.9 |
| Total | 2,612 | 100.0 | 2,622 | 100.0 |

The Group's employee structure by gender is still balanced, although in 2018 the number of women was on the increase. They are represented at all levels of management and in all professional and administrative areas of work.

### Employees by years of service with the Group as at year end

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Years of service | Number | As % of total | Number | As % of total |
| 0–5 years | 678 | 26.0 | 693 | 26.4 |
| 5–10 years | 439 | 16.8 | 435 | 16.6 |
| 10–15 years | 398 | 15.2 | 394 | 15.0 |
| 15–20 years | 298 | 11.4 | 282 | 10.8 |
| 20–30 years | 492 | 18.8 | 498 | 19.0 |
| Over 30 years | 307 | 11.8 | 320 | 12.2 |
| Total | 2,612 | 100.0 | 2,622 | 100.0 |

The largest employee group in terms of years of service is the first group, with up to five years of service (2018: 26%). This is also the group with most employee arrivals and departures, which is not reflected in the total number. Reductions in the last personnel group (more than 30 years of service) are mainly due to retirement, typical employee turnover rates among agents, and the termination of employment relationships on the basis of mutual consent.

[59] GRI 102-8
[60] GRI 102-8
[61] GRI 102-8, 405-1

### Absenteeism rate[62]

Absenteeism is calculated as the number of lost workdays due to absences divided by the product of the average number of employees multiplied by the average number of workdays during the period multiplied by 100. The absenteeism rate in companies is higher due to longer sick leaves. The table below shows absenteeism rate by company.

| Absenteeism rate (%) | 2018 | 2017 |
|---|---|---|
| Zavarovalnica Sava | 4.35 | 5.02 |
| Sava Neživotno Osiguranje (SRB) | 4.04 | n/a |
| Sava Osiguruvanje (MKD) | 0.36 | 0.34 |
| Illyria | 0.34 | 0.33 |
| Sava Osiguranje (MNE) | 3.93 | 3.25 |
| Sava Re | 2.19 | 2.72 |
| Illyria Life | 0.11 | 0.24 |
| Sava Životno Osiguranje (SRB) | 2.69 | 3.99 |
| Sava Pokojninska | 3.25 | 1.70 |
| Sava Car | 0.30 | 2.13 |
| Sava Agent | 1.31 | 0.84 |
| Sava Station | 0.00 | 0.00 |
| ZM Svetovanje | 4.77 | 6.83 |
| Ornatus KC | 2.64 | 6.34 |
| TBS Team 24 | 3.57 | n/a |
| Sava Penzisko Društvo | 1.05 | n/a |

* TBS Team 24 and Sava Penzisko Društvo were not Group companies in 2017.

## 10.3.2 Employee turnover rate[63]

Employee turnover rate is measured using the number of employees who left relative to the total number of employees remaining as at the last day of the year. The employee turnover rate increased by 0.1 p.p. (2017: 17.5%; 2018: 17.6%).

| | 2018 | 2017 | |
|---|---|---|---|
| | Number | Number | Change |
| Number of employees who left | 459 | 458 | 1.0 |
| Number of employees as at the year end | 2,612 | 2,622 | -10.0 |
| Employee turnover rate (%) | 17.6% | 17.5% | 0.105 |

### Overview of employee arrivals and departures by gender in current year

| Year 2018 | Arrivals | | Departures | |
|---|---|---|---|---|
| Gender | Number | Structure (%) | Number | Structure (%) |
| Women | 234 | 52.1 | 243 | 52.9 |
| Men | 215 | 47.9 | 216 | 47.1 |
| Total | 449 | 100.0 | 459 | 100.0 |

The ratio of employee arrivals to empoyee departures in 2018 remains gender-balanced.

[62] GRI 403-2

[63] GRI 401-1

## 10.4 Employee training and development[64]

Employee training and development is vital for the implementation of strategic directions and the achievement of the goals of the Group and its individual companies. We strive to provide all employees with training opportunities in either internal or external professional sessions. Group and individual trainings are organised in leadership skills, assertive communication, efficient sales, teamwork, and time management. Employees are encouraged to take part in professional seminars in order to acquire and maintain expertise. We also encourage employees in all companies to reintegrate into formal education.

Companies enable and encourage employees to obtain and retain licenses required for sales personnel and other professional staff. We continued to train the network of internal trainers in sales who assist employees and managers through education and training, and through one-on-one field support.

We vigorously foster transfer of knowledge to increase synergy effects in the Group. And therefore maintain the good practice of joint training events in all areas of work. To this end, Sava Re organised the following events in 2018: internal audit seminar; IT seminar; seminars in finance, accounting, controlling, actuarial affairs, human resources management and risk management; and a marketing and public relations conference.

Due to the culturally diverse environment in which the Sava Re Group operates, two strategic conferences of the Group are organised every year. The conferences are designed to connect the top management of companies and to implement the Group's overall strategic goals. The identification of current trends in corporate, governance, information technology, sales, and modern organisational culture is crucial in implementing effective corporate governance.

### Key data on employee training[65]

| | 2018 | 2017 | Index |
|---|---|---|---|
| **Hours of training** | 46,796 | 49,738 | 94.1 |
| **Number of training attendees** | 2,157 | 1,425 | 151.4 |

The number of education/training attendees increased by 51.4% in 2018 compared to 2017. The increase is the result of the training of sales agents and the inclusion of new employees in training programmes.

In all Sava Re Group companies, the number of employees who attended at least one training event in 2018 increased.

Total education/training hours in 2018 decreased by 5.9% compared to the previous year. It is important that more employees are involved in training, as we managed to integrate them into shorter and more efficient forms of training.

[64] GRI 103-1, 103-2, 103-3
[65] GRI 404-1

### Number of training hours by type of training[66]

| | 2018 | 2017 | Index |
|---|---|---|---|
| **Number of internal training hours** | 22,904 | 25,741 | 89.0 |
| **Number of external education/training hours** | 23,892 | 23,997 | 99.6 |
| **Total education/training hours** | **46,796** | **49,738** | **94.1** |

The number of internal training hours in 2018 was 11.0% lower compared to the previous year.

Fewer hours compared to the previous year reflects different training needs (e.g. the introduction of new or changed products) and the scope of new developments in the industry (e.g. GDPR, IFRS, IDD, etc.), which implies a different training scheme.

In 2018, Group companies mainly carried out training and education for sales personnel in negotiations, communication and concluding sales. Target-driven training/education was also organised for managers at all levels.

### Average hours of training per employee[67]

| | 2018 | | |
|---|---|---|---|
| **Gender** | **Number** | **Hours of training** | **Average** |
| **Women** | 1,024 | 22,940 | 22.4 |
| **Men** | 1,133 | 23,855 | 21.1 |
| **Total** | **2,157** | **46,796** | **21.7** |

In the Group, the number of training hours was gender-balanced, as in 2017.

[66] GRI 404-1
[67] GRI 404-1

## 10.5 Management and motivation[68]

The Group strongly fosters the identification of key professional and promising personnel who are then trained to assume more demanding tasks and posts associated with greater responsibilities. We encourage professional and personal development of employees. We develop staff managerial skills, in recognition of their key role in a modern corporate culture.

### 10.5.1 Annual performance appraisal interviews[69]

We have been conducting annual interviews in the Group for many years. They have been recognised as an important tool in developing effective leadership, identifying potential, and motivating and developing employees. During the year, we monitor work and the meeting of set objectives through quarterly interviews. We have been improving communication between superiors and employees by providing feedback, which has seen employee performance and satisfaction improved considerably. We have put in place a system that offers all stakeholders the opportunity to improve their work, together with opportunities for personal development and promotion.
Slovenian Sava Re Group companies have introduced management by objectives, which is an upgrade of performance appraisal interviews.

### 10.5.2 Health and safety at work[70]

In all Group companies, measures related to occupational and fire safety are carried out. In addition, all employees are referred to the necessary occupational health checks.

A large number of actions promoting health in the workplace are launched in Group companies, depending on their organisational and other capabilities (promotion of recreation, raising awareness on the importance of healthy diet, stress management workshops). Sava Re sets a good example and provides help.

### 10.5.3 Other[71]

Individual companies offer employees additional financial benefits (e.g. supplementary pension or other insurance) and non-financial benefits (e.g. flexible working hours, recreation, use of leisure facilities).

They also organise social events for employees during the year, also outside working hours. In addition, Group employees were involved in several corporate charity activities that traditionally are part of the Sava Re Day.

All employees can join representative labour bodies in all the companies where such bodies have been set up. Employee representatives are informed of the introduction of important changes in accordance with the applicable legislation.

Employees are regularly informed of developments in Group companies through the Sava Re Group portal.

**732 more**

employees involved in training activities in 2018

[68] GRI 103-1, 103-2, 103-3
[69] GRI 404-3
[70] GRI 103-1, 103-2, 103-3

[71] GRI 103-1, 103-2, 103-3

# 11 Risk management[72]

**Below we describe the risk and capital management system and the significant risks to which the Sava Re Group is exposed. These areas will be presented in more detail also in the Solvency and financial condition report of Sava Re as at 31 December 2018 that will be published on the Company's website not later than on 22 April 2019, and in the Solvency and financial condition report of the Group as at 31 December 2018 that will be published on the website on 3 June 2019.**

## 11.1 Risk management system

The Sava Re Group management is aware that risk management is key to achieving operational and strategic objectives and to ensuring its long-term solvency. Therefore, the Sava Re Group is continuously upgrading the risk management system both at the Group company and Group levels.

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

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

[72] GRI 102-11

The risk management system at the individual company and Group levels is subject to continuous improvement. Particular attention is paid to:

- clearly-expressed risk appetite within the framework of the risk strategy, including operational limits,
- development of own risk assessment models and upgrading of the own risk and solvency assessment (hereinafter: ORSA),
- integration of the ORSA and risk strategy in the framework of business planning and shaping of the business strategy,
- integration of risk management processes into business processes,
- establishment of adequate risk management standards in all Group companies depending on the nature, level and complexity of risks to which companies are exposed.

### 11.1.1 Risk management organisation

Systematic risk management includes an appropriate organisational structure and a clear delineation of responsibilities.

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

- The first line of defence constitutes all organisational units with operational responsibilities (development, sales, marketing and insurance management, provision of insurance services, financial operations, accounting, controlling, human resources and others).
- The second line of defence consists of three key functions (the risk management function, actuarial function, compliance function) and the risk management committee, if set up in the company.
- The third line of defence consists of the internal audit function.

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

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

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

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

The first line of defence of each individual Group company involves all company employees responsible for ensuring that operational tasks are performed in a manner that reduces or eliminates risks. Additionally, risk owners are responsible for individual risks listed in the risk register. Departmental executive directors, line and service directors ensure that the operational performance of the processes for which they are responsible are 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 regular reporting on individual areas of risk, and the identification of new risks.

Each Group company has set up the following three key functions as part of the second line of defence: the actuarial function, risk management function, and compliance function. In addition, the Group's large members have in place a risk management committee. The members of the risk management committee and key function holders are appointed by the management board; key function holder appointments additionally require the consent of the supervisory board. Each individual company ensures the independence of the key functions, which are organised as management support services and report directly to the management board. Their roles and responsibilities are defined in the policy of each key function or in the risk management policy that defines the risk management function.

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

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

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

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

The third line of defence consists of the internal audit function. For Slovenian companies the function is organised as an outsourced internal audit engagement in Sava Re, and individual companies have their own internal audit functions. The internal audit function operates at the individual company and Group levels and is completely independent from the business operations and other functions. In the context of the risk management system, the internal audit function holders are responsible for independent analysis and verification of the effectiveness of risk management processes and internal controls that are in place.

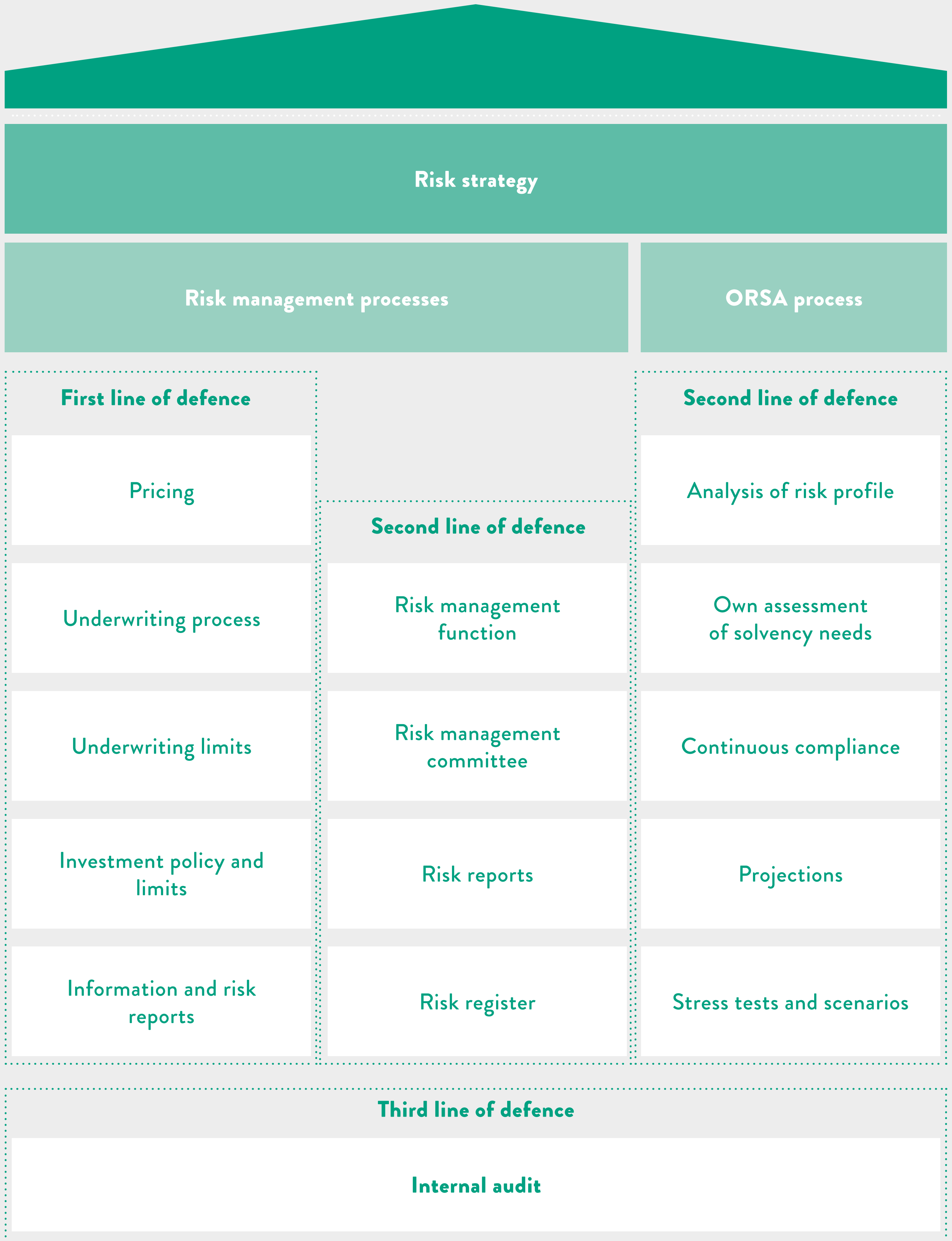
Good practices from Sava Re's risk management model and the organisation of risk management are also transferred to other Group companies.

## 11.1.2 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
- ORSA process.

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



### 11.1.2.1 Risk strategy

In order to establish a solid risk management framework, the management board, with the consent of the Sava Re supervisory board, approved the Sava Re Group risk strategy for the 2017–2019 period, which defines the Group's risk strategy based on its risk bearing capacity. The individual Group companies draft their own risk strategy by taking into account the framework of the Group's risk strategy. The Group document sets:

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

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

The key areas on which risk appetite is based are:

- capital,
- liquidity,
- product profitability, and
- reputation of individual companies and the Group.

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

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

For the purpose of periodic monitoring of compliance with the risk strategy, a minimal set of risk measures has been defined in individual Group companies that facilitate simplified monitoring of the current risk profile and capital position of each individual company and the Group, without having to carry out a complete calculation of the solvency capital requirement. The measures in individual companies and the Group are subject to continuous monitoring.

### 11.1.2.2 Risk management processes

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

The chief risk management processes are:

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

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

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

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

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

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

The Group has in place regular risk assessment (measurement) processes for all the risks to which individual companies or the Group are exposed. Both qualitative and quantitative methods are used to measure risk. The modelling development centre functions at the Group level to develop quantitative risk assessment models for the entire Sava Re Group.

The Group therefore measures risks:

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

**Risk management**

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

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

In practice, it is already in the business planning process that a Group company examines the impact of the business strategy on its capital position, both with regard to the regulator as well as with regard to the 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 relevant company assesses the impact of such decisions on its risk profile and capital adequacy, and verifies compliance with the risk appetite. If a business decision could have a significant impact also on the Group's risk profile, such impact on the Group's risk profile and capital adequacy is also assessed. If any business decision does not comply with the risk appetite or any risk tolerance limit is exceeded, the company needs 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, risk management departments, the risk management committee, the management board, the supervisory board's risk committee (Sava Re) and at the supervisory board level of each Group company. In addition, each Group company's risk profile is monitored at the Group level in terms of impact on the Group's risk profile. A standard set of risk measures is defined for risk monitoring, and Group companies follow it on a regular basis. Both risks and risk management measures are subject to monitoring and control.

**Risk reporting**

Regular risk reporting has been set up in the large Group company and Group levels. Risk owners report on each category of risk to the risk management function, including a predetermined set of significant risk measures and qualitative information. Based on this, the risk management function in cooperation with risk managers prepares a risk report covering each individual company's entire risk profile. The report is first discussed by the company's risk management committee (if the company has one), followed by the management and supervisory boards. The report is sent by the company's risk management function to the Group's risk management function.

### 11.1.2.3 Own risk and solvency assessment

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

As a rule, the ORSA process is conducted annually; an ad hoc ORSA is performed in the event of a significant change in the risk profile. EU-based Group companies report to the regulator on the ORSA (at least) on an annual basis. Every year, ORSA is more closely integrated with other processes, in particular with risk and capital management, and business planning. The Group's risk management committee and company management boards are actively involved in the ORSA throughout the process. Employees from different departments take part in the process, as we wish to obtain as complete and updated a picture of the company's risk profile as possible.

The Sava Re Group carries out the ORSA process in order to understand the own risk profile and the standard formula and to analyse the impact of the changes to the risk profile on capital adequacy over the next three years. ORSA is an integral part of the decision-making process and contributes to the key decisions and business strategy of the Group being adopted with consideration of risks and associated capital requirements. Based on the Group ORSA results, we also check the compliance of the business strategy with the risk strategy. This establishes the link between the business strategy, the risks taken in the short, medium and longer term, and the capital requirements arising from those risks and with capital management.

## 11.2 Capital management

Capital management at the Group level is defined in the capital management policy of the Sava Re Group and Sava Re, which sets out the objectives and key activities associated with capital management. Capital management is inseparably linked with the risk strategy, which defines the risk appetite.

The Group's objectives of capital management are:

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

The Group manages its capital to ensure that each Group company has available, on an ongoing basis, sufficient funds to meet its obligations and regulatory capital requirements. The composition of own funds held to ensure capital adequacy must comply with regulatory requirements and ensure an optimal balance between debt and equity capital. The level of eligible own funds in individual Group companies and within the Group is intended to meet the solvency capital requirements and to achieve the target credit rating and other objectives of the individual Group company and the Group as a whole.

An important input element in capital management and business planning is the Group risk strategy and its risk appetite set out in the strategy. For the purposes of determining a capital management framework, the Group risk strategy defines levels of capital adequacy. Group capital adequacy serves as the basis for determining the capital adequacy of each Group company.

The Group risk strategy in conjunction with capital adequacy is defined so as to meet regulatory requirements and the requirements of rating agencies, and to ensure that the controlling company has sufficient excess capital to cover any potential capital needs of subsidiaries in the event of a major stress scenario materialising in any of them. To this end, excess of eligible own funds is determined over the statutorily required.

As provided by the risk strategy, all Group subsidiaries must have, on an ongoing basis, a sufficient amount of capital available to meet solvency requirements. In addition, Sava Re Group subsidiaries subject to the Solvency II regime must have sufficient capital to absorb small to medium fluctuations in the SCR and own funds, which may result from the standard formula methodology and the possibility of small and medium stresses and stress scenarios materialising.

## 11.3 Material risks of the Sava Re Group

The Sava Re Group and Group members are exposed to the following risks:

- underwriting risks arising from (re)insurance contracts; these are associated with the risks covered under (re)insurance contracts and with directly related activities;
- market risk related to volatile prices of financial instruments, market prices of other assets and participations in other companies;
- credit risk arising from non-performance and changes in the credit rating of securities issuers related to the investment portfolio of (re)insurers, and of reinsurers, intermediaries and other business partners who have outstanding liabilities to the (re)insurers;
- operational risk associated with inadequate or inefficient internal processes, people and computer systems, or from external events;
- liquidity risks related to loss resulting from insufficient liquid assets when liabilities become due or increased costs of realisation of less liquid assets;
- strategic risk associated with achieving the company's strategic plans, and reputational risk, including any implications.

Individual risks are described in detail in the notes to the financial statements of the Sava Re Group (section 17.6) and the notes to the financial statements of Sava Re (section 23.5).

# 12 Internal audit activities

**The aim of the internal audit is to provide assurance and advice to the management board in order to add value as well as improve the effectiveness and efficiency of operations. The internal audit assists the Company in achieving its goals based on a systematic and methodical assessment of the effectiveness and efficiency of governance, risk management and the internal control system, and by providing recommendations for their improvement.**

Internal auditing in the Company is carried out by an independent organisational unit, the internal audit department (IAD), which reports to the management board and is functionally and organisationally separate from other organisational units of the Company. This ensures the autonomy and independence of its operation.

In accordance with article 171(7) of the Insurance Act (ZZavar-1; Official Gazette of the Republic of Slovenia, no. 93/15), Sava Re signed an outsourcing contract with Zavarovalnica Sava and Sava Pokojninska Družba d.d. under which Zavarovalnica Sava d.d. and Sava Pokojninska Družba d.d. transferred the performance of the internal audit key function to Sava Re d.d. as of 1 February 2018 for an indefinite period.

In 2018, the IAD conducted audits and other tasks based on its annual work plan. The plan included 25 internal audit reviews, of which 24 were carried out.

Based on all tests and methods used in individual areas of auditing, the IAD is of the opinion that the internal controls at Sava Re are largely adequate and that the degree of their reliability is satisfactory. The IAD is also of the opinion that the governance of Sava Re was appropriate and is being improved on an ongoing basis in order to achieve major business goals, and that risks are effectively managed with efficiency and economy of operations in mind. According to the IAD, there remains room for improvement regarding the operation of the system. The audit engagements revealed individual irregularities and weaknesses, which the IAD pointed out, recommending the remedy of such aimed at improving control procedures, corporate governance and risk management. This is to improve the efficiency of internal controls and regularity of operations.

Regular IAD reviews were focused on establishing the probability of fraud, and exposure and vulnerability to IT risks. In areas subject to internal audit engagements, control systems have been set up and are operating so as to prevent fraud.

The IAD reports – on a quarterly basis – to the management board, the audit committee and the supervisory board on completed auditing engagements, the effectiveness and efficiency of control systems, corporate governance, risk management, identified breaches and irregularities, and on the monitoring of the implementation of recommendations. In addition, the IAD prepared an annual report on its activities in 2018, which is part of the materials for the general meeting of shareholders.

The IAD also conducted a self-assessment of its operation in 2018. The results showed that the operations of the IAD complied with the definition of internal auditing, the Standards and the IAD's code of ethics.

Through the development of the IAD, activities have been completed relating to the implementation of new IT support to the overall internal audit process.

# 13 Sustainable development in the Sava Re Group

**In 2018, Sava Neživotno Osiguranje from Belgrade sponsored a sailing regatta to support children in water sports.**

**The following is the second comprehensive Sava Re sustainability report prepared in accordance with the international sustainability reporting standards Global Reporting Initiative (GRI) (Core option); it provides a straightforward and honest overview of the character, values and strategic pursuits of the Company and the Group as a whole.[73]**

## About the report[74]

The consolidated annual report refers to a single financial and calendar year and is prepared in accordance with the International Accounting Standards, the Companies Act, the Solvency II Directive and international sustainability reporting standards Global Reporting Initiative (GRI). The annual report has been prepared in cooperation with Sava Re specialist services. The consolidated annual report incorporates all legal entities constituting the Sava Re Group[75].

Sustainability reporting is integrated in individual sections of the annual report. Disclosures are specially indicated with interactive references. The section "Sustainable development in the Sava Re Group" provides disclosures and other specific business impacts not covered by other sections of the annual report. In addition to general disclosures, it provides, in accordance with prescribed principles, disclosures on the economic, social and environmental aspects that are of vital importance for Sava Re and that relate directly to the Group strategy.

[73] GRI 102-54, 102-51
[74] GRI 102-46
[75] GRI 102-45, 102-50, 102-52

The data on sustainable operation of the Group was prepared by a mixed working group brought together explicitly for this purpose, with the assistance of specialist services of each subsidiary. Data is collected and the report drafted by specialist services of the controlling company, which is also responsible for reporting. Disclosures in accordance with the GRI standard refer to all Group companies, where possible; where it is not possible, to the controlling company and EU-based subsidiaries. The GRI content index[76] at the end of the annual report offers a comprehensive overview of the type and scope of disclosures.

We have established that due to new findings, no indication or information from the previous report has changed, and the report therefore contains no corrections[77].

For the time being, Sava Re has not decided to seek external assurance of the report[78].

## Non-financial statement

With the non-financial information reported in accordance with the GRI standards, the annual report of the Sava Re Group and Sava Re d.d. for 2018 complies with the Directive 2014/95/EU of the European Parliament and of the Council on disclosure of non-financial and diversity information by certain large undertakings and groups and with the Companies Act.

## 13.1 Sustainability as part of the strategy

In its strategic plan for the period 2017–2019, Sava Re incorporated sustainable development as one of its key pursuits and made a commitment to make it an integral part of the business processes in this period. As is clear from the report, the guidelines were followed in some areas, whereas in others the sustainable aspect is still being introduced. Business models for sustainable development and criteria for monitoring sustainable development indicators have not yet been established everywhere, and the 2018 non-financial report does not yet allow for comparative analysis in all areas, but in some cases it presents data and facts consistent with the reporting principles.

Since we are aware of the importance of the sustainable development guidelines, and the monitoring of indicators and the positive effects of sustainable operation, a strategy for the entire Sava Re Group is in preparation.

[76] GRI 102-55
[77] GRI 102-48,102-49
[78] GRI 102-56

The Sava Re Group sustainability report for 2018 covers three specific areas that the Company and the Group with their activities impact – economic issues, social aspects and environmental aspects. As outlined below, stakeholders were not directly involved in the sustainable reporting process; therefore, the essential contents reported as such were identified by our professional services.

**Essential contents of Sava Re Group sustainable reporting[79]**

| Economic topics (GRI 200) | Social aspects (GRI 400) | Environmental aspects (GRI 300) |
|---|---|---|
| Economic performance<br>Market presence<br>Indirect economic impacts<br>Procurement practices<br>Prevention of corruption | Recruitment and staffing levels<br>Employee training and development<br>Management and motivation<br>Health and safety at work<br>Relations with policyholders and cedants<br>Relations with suppliers<br>Local community<br>Marketing and labelling | Waste disposal policy<br>Energy<br>Supplier assessment |

## 13.2 Stakeholder engagement[80]

Below, the report lists the key stakeholders believed to have a significant impact on each individual legal entity in the Group and vice versa; what is more, these stakeholders also actively contribute in adding value to our business operations. While we did not directly include our key stakeholders in the preparation of the sustainability report in the reporting period 2018, we recognised and highlighted, through their previous cooperation and based on the assessment and experience of our professional services, those areas of particular interest to them. As we are well aware of the importance of involving stakeholders in sustainable development and reporting, this will be one of the goals in future reporting.

We cultivate responsible and sincere relations with all our stakeholders. In doing so we follow the recommendations and rules of public reporting, the code of ethics and internal rules. Additionally, we seek out opportunities to simplify access to information and opinion sharing, making use of information technology, which is unconstrained by time and space.

In the Sava Re Group, employees, policyholders, cedants, shareholders, prospective investors, regulators, unions, communities, suppliers and the media are recognised as the stakeholders that play a key role in its existence and successful operations.

[79] GRI 102-47
[80] GRI 102-40, 102-42, 102-43, 102-44, 102-46

| Stakeholders | Type of involvement | Content and objective |
|---|---|---|
| **Employees** | • Employee participation (workers' council and unions)<br>• Internal formal events (strategic conferences, professional and educational events)<br>• Internal informal events (informal meetings, team building events, sports events, parties)<br>• Internal training/consultations<br>• Management by objectives (annual appraisal interviews)<br>• Internal web and print media<br>• Thinking out of the box<br>• Electronic mail<br>• Personal contact<br>• Opinion polls/questionnaires<br>• Sports societies | • Information, awareness<br>• Stimulating ideas to improve the working environment and business process<br>• Two-way communication<br>• Culture building, improving relations |
| **Policyholders/ cedants** | • One-to-one counselling<br>• Meetings<br>• Compliments and complaints<br>• Websites, blogs<br>• Contact centre<br>• Market communication through different channels<br>• Expert meetings/conferences<br>• Events<br>• Social networks | • Service quality<br>• Customer focus<br>• Information<br>• Quick problem solving<br>• Customer-friendly attitude<br>• Identifying actual market needs<br>• Modern sales channels |
| **Shareholders and prospective investors** | • Supervisory board meeting<br>• General meeting of shareholders<br>• Public notifications (SEOnet and www.zav-sava.si)<br>• Financial reports<br>• Letter to shareholders<br>• Electronic mail<br>• Meetings<br>• Investor conferences and webcasts | • Equal access to information<br>• Clear dividend policy<br>• In-depth information on business operations<br>• Sustainable operations<br>• Strategic policy<br>• Credit rating |
| **Regulatory** | • Regular and extraordinary reporting to the Insurance Supervision Agency (ISA) and Securities Market Agency (SMA)<br>• Regular and extraordinary reporting to the Competition Protection Agency (CPA) | • Compliance with legislation<br>• Transparency of operations<br>• Security of policyholders<br>• Compliance |
| **Trade unions** | • Regular meetings<br>• Cooperation (coordination) in preparation of internal acts<br>• Negotiations | • Employee engagement in governance<br>• Collaboration<br>• Employee benefits<br>• Employee remuneration<br>• Ensuring a friendly working environment |
| **Communities** | • Direct contact with local decision makers<br>• Support to non-profit organisations through sponsorships and donations<br>• Support for preventive actions<br>• Employee assistance | • Involving the company/employees in local communities and society at large<br>• Co-financing of projects important for the local community<br>• Enhancing security through preventive actions<br>• Infrastructure investments<br>• Awareness raising among the population |
| **Suppliers** | • Tenders<br>• Invitations to participation<br>• Questionnaires<br>• Meetings<br>• Presentations | • Environmentally friendly materials<br>• Paperless operation<br>• Digitisation of operations<br>• Payment reliability<br>• Honouring agreements<br>• Delivery of waste disposal certificates<br>• Supporting local economy |
| **Media** | • Press releases<br>• Press conferences<br>• Interviews<br>• Answers to journalists' questions | • Providing information to the general public<br>• Strengthening the positive realistic image of the Company/Group |

## 13.3 Economic topics[81]

Economic performance defined by the strategic goals in all areas and reported more extensively in the financial part of the report is the key performance indicator for the operations of the Sava Re Group. This is achieved through timely risk identification and management. We believe that both financial and non-financial risks have an impact on the economic performance of the Company.

Distributed economic value of the Sava Re Group, as follows from the table below, amounted to EUR 560.9 million in 2018. It consists of net claims incurred and other insurance expenses, expenses for financial assets, other expenses, operating expenses, dividend payouts, tax expenses, community investments in the form of prevention, donations and sponsorships, payments, benefits and bonuses to employees.

### Direct economic value generated and distributed of the Sava Re Group[82]

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **Other economic impacts** | | | |
| **Economic value generated*** | **567.3** | **519.8** | **109.1** |
| **Economic value distributed** | **560.9** | **508.8** | **110.2** |
| **Net claims incurred and other technical expenses** | 344.1 | 313.6 | 109.7 |
| **Expenses for financial assets** | 9.6 | 11.9 | 80.8 |
| **Other expenses** | 2.9 | 2.8 | 103.6 |
| **Operating expenses**** | 103.1 | 87.7 | 117.6 |
| **Dividend payouts** | 12.4 | 12.5 | 99.5 |
| **Income tax expense** | 12.2 | 8.8 | 139.4 |
| **Investments in the social community (prevention, donations, sponsorships)** | 3.5 | 3.2 | 110.3 |
| **Employee payments, allowances and benefits** | 73.1 | 68.4 | 106.9 |
| **Economic value retained** | **6.3** | **11.0** | **57.7** |

* Economic value generated = net premium earned + other technical income + investment income + other income

** Operating expenses include commissions and other operating costs excluding personnel costs, sponsorships, prevention and donations

[81] GRI 103-1, 103-2, 103-3

[82] GRI 201-1

## Sponsorship, donations and preventive actions[83]

Key indirect effects of the Sava Re Group are investments in sponsorships, donations and preventive activities. In this field, Zavarovalnica Sava is the Group leader.

### Value of sponsorships of Sava Re Group companies

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Sava Re | 12,524 | 500 | 2504.8 |
| Zavarovalnica Sava | 2,207,416 | 2,141,435 | 103.1 |
| Sava Pokojninska | 11,150 | 8,080 | 138.0 |
| Illyria | 1,500 | 5,000 | 30.0 |
| Sava Neživotno Osiguranje (SRB) | 4,760 | 3,057 | 482.8 |
| Sava Osiguranje (MNE) | 5,460 | 7,707 | 70.8 |
| Sava Osiguruvanje (MKD) | 8,074 | 9,813 | 82.3 |
| Total | 2,260,884 | 2,175,592 | 103.9 |

### Value of Sava Re Group donations

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Sava Re | 15,320 | 21,110 | 72.6 |
| Zavarovalnica Sava | 841,346 | 739,594 | 113.8 |
| Sava Pokojninska | 8,150 | 7,555 | 107.9 |
| Illyria Life | 447 | - | |
| Illyria | 500 | 3,000 | 16.7 |
| Sava Životno Osiguranje (SRB) | 320 | - | |
| Sava Neživotno Osiguranje (SRB) | 2,184 | 7,887 | 27.7 |
| Sava Osiguranje (MNE) | 41,787 | 31,610 | 132.2 |
| Sava Osiguruvanje (MKD) | 22,750 | 2,935 | 775.0 |
| Total | 935,174 | 817,055 | 114.5 |

In 2018, the Sava Re Group allocated EUR 3.2 million in funds for sponsorships and donations, with 95% of the sum contributed by Zavarovalnica Sava. The total amount the Group allocated to these activities increased by 7% over 2017. The activities covered by sponsorships and donations are covered in the section describing the social aspects of sustainability.

Zavarovalnica Sava is paying increasing attention to preventive action[84]. Through timely action and adequate financial assistance, the company supports organisations and associations in eliminating the causes of loss, preventing hazards that might lead to new losses for policyholders, and in eliminating or mitigating the adverse effects of losses already incurred on insured property and people. This way, the insurance company also shows concern for the natural environment (fire prevention, prevention of pollution, traffic accidents and similar) and as a result contributes to lower expenses.

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Prevention | 289,035 | 257,335 | 112.3 |

In 2018, Zavarovalnica Sava increased the amount of funds allocated for preventive activities by 12.3% compared to the previous year.

## Infrastructure investments[85]

When investing, Sava Re and Zavarovalnica Sava adhere to the environmental and social policy prescribed by the EBRD and follow the ESG (environmental, social, governance) principles through negative screening. When choosing potential investments, we prefer those that adhere to ESG principles, and to sustainable development, responsible investment and the like. Return on investment is not the only criterion, as sustainable impact as a criterion is increasingly associated with it (when possible or relevant).

[83] GRI 201-1, 203-2

[84] GRI 103-1, 103-2, 103-3, 201-1
[85] GRI 103-1, 103-2, 103-3, 203-1

In building our investment portfolio we avoid investing in securities that might have harmful effects of any kind either on people or the environment, or that in any way deviate from the ESG principles. Part of our funds are invested in debt securities issued by international organisations such as the EBRD, the World Bank and the European Investment Bank, as we believe that these organisations invest in environment-friendly projects and in accordance with their environmental and social policies. We also invest in securities issued to fund green, environmental projects (green bonds). After the EBRD's entry into the ownership structure of the Company, we do not invest in nuclear energy, net fishing, production or trade in illegal products or services, and products and services that (potentially) harm people or the environment. In addition, we no longer invest in military industries, the tobacco industry, adult entertainment or gambling. From the end of 2017, investments in green bonds increased from EUR 12 million by EUR 7 million to EUR 19 million in 2018. These are bonds of supply and energy companies, as well as government bonds and bonds issued by financial institutions. What they all have in common is that the funds, collected through the issue of bonds, finance projects and investments that meet criteria like the ESG standards.

**Health Day (Dan za zdravje) is dedicated to preventive health care, maintaining vitality and the well-being of employees.**

Observance of the sustainability criteria is most evident in infrastructure investments. One of the most important criteria used to select a fund that invests in infrastructure projects (globally) is compliance with ESG standards – if the fund does not meet such standards, it is usually not shortlisted. Currently, all infrastructure funds in the portfolio meet the ESG criteria, meaning a positive impact on the environment and society, and some of them explicitly target infrastructure projects that involve renewable energy sources. In 2018, we provided capital commitments of more than EUR 22 million related to five different infrastructure funds, all of which fulfilled the ESG criteria, while two of them (EUR 6 million of commitments) will invest exclusively in infrastructure projects involving renewable energy sources. Investment in infrastructure funds will continue in 2019, and one of the key criteria will consist in fulfilling ESG standards.

We are also interested in direct infrastructure investments; we entered energy efficiency projects in Slovenia and Croatia through the purchase of receivables (projects designed to reduce energy consumption in public lighting, more efficient use of energy used to heat schools and kindergartens, and production processes).

In both Slovenia and around the world, sustainability aspects are increasingly taken into account when investing. This is also followed in the investments of Save Re and Zavarovalnica Sava, which is why in the future the principles of sustainability will be even more precisely defined in our investment policy.

## Risks and opportunities arising from climate change [86]

Climate change has a significant impact not only on the quality of life in general, but also on the insurance industry. Reinsurance and insurance play a critical role in creating security through additional risk spreading, as they help protect against random, unpredictable losses. At the same time, we also impact the natural environment in which we live. Investments in sustainable development and preventive activities (renewable energy sources, informing policyholders about what to do in case of disasters) certainly have a positive impact on the amount and level of claims resulting from climate change.

Losses are a natural phenomenon in our business. Managing this risk has been and will continue to be a particular challenge for the insurance industry.

In 2018, the international reinsurance portfolio of Sava Re was not affected by a significant number of natural disaster claims. The biggest of them were Typhoon Jebi in Japan (impact on the net result of reinsurance opertions of EUR 5 million) and a much smaller flood claim in India (EUR 1.4 million). These events are not seen as a consequence of climate change, since their scope and frequency do not differ from similar events in past decades. Bearing this in mind, we do not plan any changes to the reinsurance strategy.

Zavarovalnica Sava suffered the biggest loss impact. Catastrophes (storm, hail, floods) accounted for more than 10,773 claims in 2018, totalling more than EUR 10.9 million (payments and provisions). Compared to 2017, the number of claims in 2018 decreased by approximately 27%, while the total amount (payments and provisions) remained at approximately the same level as in 2017. It can be concluded from the comparison that the claims that followed catastrophes in 2018 were far larger, reflecting the more powerful storms of 2018.

This resulted not only in financial losses, but also in an extremely increased workload, which in turn led to less responsive customer services and to the potential risk of diminished accuracy of claims processing. Excessive workloads also meant that certain development activities had to be suspended. In 2018, Zavarovalnica Sava also conducted regular and developmental project activities with which it optimised claims processing and introduced new approaches (online claim reporting, on-site valuation and calculation, guidance for clients, organisation of comprehensive loss remediation through active involvement of contractors). These novelties and developments are also expected to have a favourable impact on work organisation in mass loss events.

[86] GRI 103-1, 103-2, 103-3, 201-2

## Relations with suppliers and the purchasing policy [87]

Group companies coordinated purchasing policy and made it more uniform, which involves strategic guidelines and principles governing a transparent procurement process. The inclusion of an anti-corruption clause in all purchase contracts has been agreed.[88] When ordering, taking over and paying for goods, the principle of four eyes is applied, which ensures a high degree of individual control over the business purchasing process. Sava Re assesses the risk of inadequate execution of the purchasing process on a quarterly basis.[89] The Rules on the procurement procedure are accompanied by the Questionnaire on the sustainability of the Company[90], which is intended for suppliers whose bids are collected through a tender (the value of goods exceeds EUR 50,000). A completed questionnaire is an important factor in the selection of a supplier and the first step towards the promotion of sustainability in partner relationships within the procurement process.

Group companies prioritise cooperation with local suppliers, and in the case of foreign producers, with local intermediaries or agents. Although some purchases are made outside Slovenia, they are limited (mainly to those goods and services that cannot be sourced in Slovenia or are not offered here at competitive prices).

The local market of an individual Group member represents the total geographical area of the country in which it is registered. Group companies' suppliers are mainly providers of consulting services, IT tool maintenance and upgrading, office supplies, small tools, computer hardware, software and similar, and company cars. When selecting promotional materials and business gifts, we tend to opt for natural materials, local producers and international recognition of domestic initiatives (tea, honey, World Bee Day, etc.) as much as possible.

Present in all major towns across the Republic of Slovenia, Zavarovalnica Sava is by nature – its business being life and non-life insurance – obliged to work in cooperation with local suppliers; as a result it maintains good business relationships, something that is reflected also in terms of transaction costs, which are lower than they would be if the Company worked with suppliers outside Slovenia.

Sava Re ensures competitiveness and transparency of the selection procedure in relationships with its suppliers by sending requests for proposals to several providers and increasing competencies and responsibilities for decision making regarding selection of suppliers, depending on the level of the estimated value of the goods. Special attention is put on the development of quality criteria, mutual cooperation, creation of synergy, and price competitiveness (rebate scales and similar), all of which are considered an appropriate basis on which to assess suppliers.

In terms of procurement, the Company/Group takes into account also a number of other internal acts defining procedures and other instructions: fleet management policy in the Sava Re Group, rules on procurement, use and maintenance of company vehicles, systemic procurement procedure in the Sava Re Group, rules on company mobile phones and devices, and similar.

Sava Re and Zavarovalnica Sava settle their liabilities in purchasing procedures within agreed due dates.

[87] GRI 102-9, 103-1, 103-2, 103-3, 204-1, 308-1
[88] GRI 205-1
[89] GRI 205-1
[90] GRI 414-1

## Anti-corruption activity and protection of personal data[91]

In accordance with the provisions of the Slovenian Corporate Integrity Guidelines, the Sava Re Group purchasing policy and internal rules of an individual company in the Republic of Slovenia, the anti-corruption clause is incorporated as a mandatory contractual provision in legal relations with contractual partners, along with the general purchasing conditions of individual companies, protection of confidential data and provisions governing the protection of personal data.

On 25 May 2018, the General Data Protection Regulation (GDPR) became directly applicable in the EU. The new rules apply throughout the EU, but also to companies outside the EU that do business with EU residents or process their personal data.

In 2018, the Sava Re Group companies in the Republic of Slovenia obtained a report by external experts on the review of the compliance of personal data processing, with an emphasis on the arrangement of personal data protection in compliance with the General Data Protection Regulation, and recommendations to address identified shortcomings. On the basis of the recommendations, the companies prepared changes to their rules on the protection of personal data, changes to the personal data catalogue and to the sample contract on personal data protection. Adjustments to the information system were also made.

The compliance officer in the Sava Re Group also obtained data from the subsidiaries (Montenegro, North Macedonia, Serbia and Kosovo) on possible amendments to the local legislation on personal data protection. Since individual Sava Re subsidiaries from outside the EU, for example support the resolution of claims for insurance companies from the EU, they are already subject to the GDPR requirements. In most countries outside the EU (countries of the Adria region), national legislation is also already being drawn up to transpose (in whole or in part) the provisions of the GDPR into national legal systems. The compliance officer will advise the subsidiaries outside the EU on the implementation of the GDPR and coordinate the transfer of best practices from companies in Slovenia.

Throughout the year, employees of Zavarovalnica Sava were offered guidance on the manner and importance of proper protection of personal data, and training was provided. All essential business measures dictated by the GDPR were adopted and a personal data protection officer was appointed. We received one request from the Information Commissioner for submission of clarifications. Zavarovalnica Sava reported one personal data breach to the Information Commissioner of the Republic of Slovenia.

[91] GRI 103-1, 103-2, 103-3, 205-1

## Cases of corruption and measures taken[92]

The Kazakhstan insurance regulator (Central Bank) contacted Sava Re in May 2018, requesting that 11 agreements on facultative reinsurance concluded with a Kazakh insurance company be verified for authenticity and validity. A review of the documentation revealed that almost all documents were forged, since Sava Re has no commercial relations with the insurance company mentioned, and does not conclude these types of transactions. We immediately responded to the regulator and offered our full cooperation. To reduce the risk of similar fraud, Sava Re decided to suspend reinsurance underwriting in Kazakhstan, unless offered business through an established international intermediary. In May, the two employees whose falsified signatures appeared on the treaties visited the police in Ljubljana to make an oral report or a proposal for prosecution. We informed the Insurance Supervision Agency of the requests received by foreign regulators. According to the information obtained, the Kazakh insurer was subject to a temporary (six-month) withdrawal of its license to perform insurance business, and the agent involved was fined in July.

Last year, Sava Re also received a request from the Russian regulator (Central Bank) to confirm the existence of reinsurance contracts with certain Russian insurance companies. In several cases, it turned out that Sava Re received a transaction from an intermediary that was not identical to the one indicated by the regulator. We suspect that all such cases involved illegal transfer of funds abroad. We cannot identify such cases without notification from a regulator or other authority. In relation to one of the above cases, the documentation in Sava Re was examined by the FARS at the request of the Russian tax administration. Sava Re provided a special financial office with the required documentation and additional explanations. The key function holder will continue to monitor such incidents and, if necessary, propose appropriate measures to prevent or limit the negative effects of such fraud, and to prevent similar cases in the future.

## Financial assistance received from government[93]

The Group companies received no financial assistance from the government in 2018.

[92] GRI 103-1, 103-2, 103-3, 205-3
[93] GRI 201-4

## Definition of other government incentives

Zavarovalnica Sava receives a monthly bonus for employing more employees with disabilities than prescribed by the quota and also claims exemption from paying the contribution for pension and disability insurance for these employees. These incentives in Zavarovalnica Sava grew by 8.7% over the previous year to a total of EUR 122.393.

In 2018, Sava Re claimed a reduction in the payment of employer's contributions for pension and disability insurance for employing persons younger than 26 years of age for indefinite periods (first employment), namely for the first two years of employment. The company was entitled to a 50% refund on employer's contributions for pension and disability insurance for the first year of employment and up to 30% on contributions for pension and disability insurance for the second year. The total value of these refunds amounted to EUR 2,119 (2017: EUR 8,369).

Sava Re also set up a collective voluntary supplementary old-age pension insurance scheme funded by the employer and has a contract in place on the accession to the pension company's pension scheme, registered in the pension scheme register with the Financial Administration of the Republic of Slovenia. Based on these contracts, the Company pays, for the employees who joined the pension scheme, a voluntary supplementary pension insurance premium. Thus, it is entitled to a reduced income tax base for the amount of the voluntary supplementary pension insurance premium paid in the tax year for its employees to the pension scheme provider. The total value of this tax relief amounts to EUR 96,378 (2017: EUR 84,077).

# 13.4 Social aspect

## 13.4.1 Responsibility to employees

The Sava Re Group nurtures common values as reflected in its efforts to create a positive work environment and sound business culture. We pursue them both through adopted strategic policies and in our daily work, behaviour, communication, relationships and decisions.

One of the Sava Re Group's strategic guidelines in the field of human resources management is to ensure a safe, diverse and sustainable work environment, one that respects the dignity and integrity of each employee. Our HRM policy dictates that HRM objectives be aligned with sustainable development policies of the Company and the Group, promoting equal opportunities and diversity of our workforce.[94]

For this reason, a leadership model was set up for the Sava Re Group, defining the key competencies expected of leaders in a modern organisational culture that promotes constructive collaboration, open communication, openness to change and continuous development. The leadership model serves as the basis for steering the development activities of leaders, who are key to creating and maintaining a secure, diverse and sustainable work environment.

At the end of 2017 we launched a management by objectives project, the aim of which is to establish a transparent goal-setting and tracking system that is based on the Company's strategy. We wish to establish a governance system that will enable managers to help direct their employees to attain certain strategic goals by helping them achieve employees' individual goals.

In accordance with the GRI standards, sustainable development with a view to human resources is monitored using the selected indicators. For more information on HRM, see section 10 "Human resources management" and section 20.3 "Human resources management".[95]

## Employee benefits[96]

Sava Re companies in Slovenia offer their employees payment of voluntary supplementary pension insurance premiums as part of the second-pillar pension scheme. In addition, Sava Re offers its employees a co-payment version of voluntary pension insurance premiums as part of the third pillar pension scheme. The amount of the payment varies among companies and is determined as an lump sum or as a percentage of the employees' gross salary.

Of the non-EU based members of the Group, the North Macedonian insurers Sava Osiguruvanje and Sava Penzisko pay into the voluntary pension scheme on behalf of their employees. Both companies pay insurance premiums for their employees as part of the second-pillar pension scheme. In addition, the pension company also pays its employees' voluntary health insurance.

Pension funds that are based on collective or individual voluntary pension insurance constitute the core activity of some members of the Sava Re Group. Therefore, we can say that we also contribute to greater awareness of the public good regarding the importance of such insurance.

Sava Re also pays collective accident insurance premiums for its employees, who are also protected through an additional business travel accident insurance scheme.

Sava Re and Zavarovalnica Sava employees and their family members can take out health insurance on particularly favourable terms.

[94] GRI 405-1

[95] GRI 102-41, 401-1, 403-2, 404-1, 404-3, 405-1

[96] GRI 103-1 103-2, 201-3

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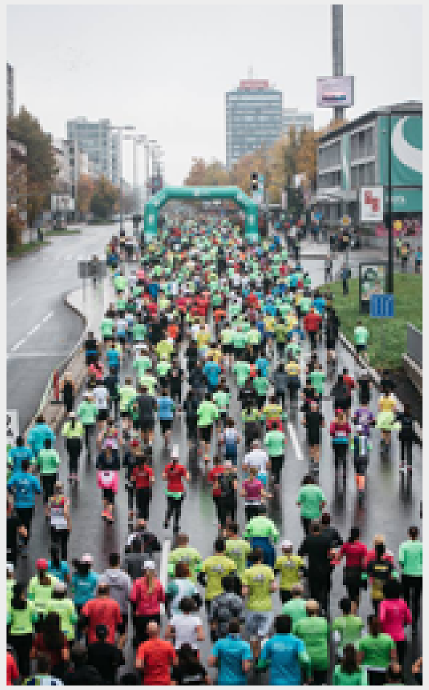
Sava Re promotes the health and wellbeing of its employees by promoting regular health routines and activities at the workplace, and through measures designed to facilitate reconciliation of work and personal life. Paid absence from work for parents accompanying their first-graders on the first day of school, volunteerism, mentorship and gift sets for newborns are some of the better-known measures.

Zavarovalnica Sava, holder of a full family-friendly company certificate, carries out other selected measures that help employees improve their work-life balance. Zavarovalnica Sava also offers paid absence from work for employees introducing their children into kindergarten or accompanying their child on the first day of school (from the 1st to the 3rd year of elementary school), and employees returning to work after a prolonged absence are offered assistance through interviews and a work reintegration plan.

At the end of 2017, Zavarovalnica Sava started to market a supplementary health insurance plan. With the due diligence, they also took care of the health of the company's employees, who received an additional day off in 2018 – Day for Health. It is aimed at preventive health care and the wellbeing of employees.

**365 days to go! (Še 365 dni!) is a preventive project dedicated to protecting children on their way to school and raising awareness among drivers that they have to pay attention to schoolchildren throughout the year.**

**Committed to Steps (Predani korakom) is a passionate project dedicated to raising awareness among people about the importance of every single step in life. It combines sponsorship of the Ljubljana Marathon, the Little Adventures of Marin Medak, and a donation to the University Rehabilitation Institute Soča.**

Zavarovalnica Sava established a special association for its agents called Zavarovalnica Sava Top Team, and agents are invited to join it based on their fulfilling the set criteria. In 2018, the ZS Top Team had 47 members who were invited to three gala cultural events and two major sporting events that we organised for our business partners. They also attended two sales conferences last year and received some valuable business gifts. A total of 22 members managed to meet the particularly high criteria required to win a trip.

Sava Re and Zavarovalnica Sava offer company-owned holiday facilities where the employees and their families can spend holidays on favourable terms. Every year, the company organises excursions for employees, and a special party in the run-up to Christmas. In the summer, employees compete in various sports events. And little children get a visit from Santa Claus at companies. On the occasion of International Women's Day, our female colleagues receive a symbolic gift.

Employees of Zavarovalnica Sava can benefit from sponsorships and become members of the newly established Zavarovalnica Sava Sport and Culture Society, which promotes active free time schemes for its members.

Best practices are shared with other Group companies. Non-EU based Group companies provide employees with various activities and benefits, including special discounts when taking out insurance, teambuilding activities, financial assistance for employees in case of an emergency, etc.

With its sports society Sava Sport Plus, Sava Osiguranje from North Macedonia raises awareness on the importance of an active lifestyle, and attracts also external members.

## 13.4.2 Responsibility to consumers[97]

**On Save Re Day, we devote our time to those who need it. We take the elderly out for a walk, spend time with asylum seekers, help people in care with shaping and landscaping the surroundings of the occupational activity centre, assist children in renovating their playgrounds ...**

Trust is the foundation of any quality long-term relationship. All Sava Re Group companies work to ensure that the "Nikoli sami" (Never alone) promise, the commitment made in 2016 and honoured ever since, is not mere words but a philosophy embedded in all our work and activities. In our communication with consumers we want to be honest, accurate and understandable.

Access to services is essential for users, so most of our insurance companies also offer online user support. Zavarovalnica Sava offers policyholders the option to report their claims online, to take out insurance, and to chat with an online consultant. The website also provides users the opportunity to share their opinions, proposals, commendations and complaints. The assistance centre provides assistance to policyholders who are travelling. Detailed information is always available online at info@zav-sava.si and from our toll-free phone helpline, at 080 19 20.[98]

[97] GRI 103-1, 103-2, 103-3
[98] GRI 417-1

## Client communication and information[99]

As regards their relationships with the insured, Group members follow the rules and procedures on complaints, which are compliant with the guidance issued by the European Insurance and Occupational Pensions Authority (EIOPA).

As the largest insurer in the Sava Re Group, Zavarovalnica Sava complies with all provisions of the Consumer Protection Act and other acts governing communication of information to clients entering into investment (insurance) contracts. Applicable legal provisions and regulatory frameworks are observed also when pursuing development activities.

We also fully comply with the Slovenian Personal Data Protection Act (ZVOP) and the regulations that require responsible handling of personal data of customers.

On 1 October 2018, the Insurance Distribution Directive (IDD) entered into force in all EU Member States. With the aim of ensuring greater transparency and comparability of insurance, enhancing consumer protection and increasing confidence in the insurance market, the directive provided for greater transparency in the development and sale of insurance and information to customers. The fundamental principles of the directive are the transparent operation of insurance companies and other sellers of insurance products in accordance with the best interests of policyholders, and the provision of fair, clear and non-misleading information about insurance products. One of the requirements of the directive is the insurance product information document (IPID). It is a short and stand-alone form with all key information about the product (insurance cover, excluded risks, restrictions, etc.). A customer is provided with better transparency and easier comparability of products. Prior to the conclusion of the contract, the agent must also determine the suitability of the insurance product for the client, and each policyholder must sign that they are acquainted with the content of the insurance product information document and the insurance product has been fully and accurately presented.

Therefore, every effort is made to ensure transparency, clarity and access to information both in developing new products and in client notification. Zavarovalnica Sava does not make use of fine print.

Communication takes place via various channels adapted to different target groups. Customers are placed at the centre in order to build partnerships with them that will permeate all aspects of their lives. This can only be ensured through a wide range of insurance products and with services that are readily available at any time.

Insurance companies also avoid the fine print in advertising, offering their clients adequate information on the advertised product. Product information is always available on official websites together with statutory notifications and related news. In the event of mass losses, we publish a notice and give instructions, setting out for our policyholders the right course of action.

[99] GRI 103-1, 103-2, 417-1

In reinsurance underwriting business, we pay due regard to internal underwriting regulations, risk taking and claims processing, and internal underwriting policy. We maintain relationships with our business partners. Meetings are arranged during international conferences and individual meetings all over the world. From time to time, we organise the Sava Summer Seminar, a training programme in reinsurance-related areas, in an effort to provide our business partners with an insight into our activities and the characteristics of our business. Participants attend from across the world, including Asia, Africa and a number of European countries. At the seminar, participants deal with topics related to reinsurance, actuarial science, modelling and solvency-related issues, also through practical examples and a closing workshop.

The Sava Pokojninska pension company reports on all regulated information on supplementary pension insurance of all of the bodies (Information Commissioner of the RS, Insurance Supervision Agency, Ministry of Labour, Family, Social Affairs and Equal Opportunities) that appear on its website (pension scheme, rules on pension fund management, appendix to the management rules, investment policy statement) or on the websites of national bodies.

In most countries outside the EU where some of the Sava Re Group companies are based, labelling and product or service information is governed by the law with minimum requirements. All these companies have websites that provide all information regarding their services. They also have channels established to communicate with different target groups (phone, email, social networks, etc.).

### 13.4.3 Fair business practices[100]

The values and principles of ethical conduct are defined in the "Code of ethics of the Sava Re Group" (hereinafter: the Code of Ethics), which has also been adopted by the Sava Re subsidiaries. The general principles of the Code of Ethics represent the basic values of the Sava Re Group, which are binding on all our employees and include: fairness and compliance of business operations, transparency, managing conflicts of interest, prevention of money-laundering and financing of terrorism, and prevention of restriction of competition. Employees who are aware of violations of the Code of Ethics or other binding rules are obliged to report violations to the compliance function holders. No violations of the Code of Ethics were found in 2018.

In the conduct of its business, the Company complies with the provisions of the adopted Insurance Code to ensure business development, a professional underwriting process and business conduct. The Company's operations are grounded in compliance with market principles, market competition based on loyalty and integrity, and insurance economics and business ethics, with the aim of providing customers high-quality insurance protection.

**The Sharing Christmas project always inspires everyone, both the elderly and participating employees, with warmth, hope and happiness. In 2018, we once again warmed their hearts and gave them priceless memories.**


[100] GRI 102-16, 103-1, 103-2, 103-3, 205-1, 205-3

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Sava Re has also signed the Slovenian Corporate Integrity Guidelines, committing the Group to creating a work environment grounded in a culture of corporate integrity, zero tolerance for the illegal and unethical conduct of its employees, compliance with legislation, rules and values as well as in the highest ethical standards. Sava Re's reference code is the Corporate Governance Code for Listed Companies adopted by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia on 27 October 2016.

At the end of 2017, the Company also adopted a policy on the diversity of the management and supervisory boards of Sava Re, which governs and preserves, inter alia, the gender- and age-balance of all board members.[101] Sava Re has integrated respect for human rights in its operations in accordance with the applicable legislation and follows the proposal for the national action plan on business and human rights of the Republic of Slovenia. The Company has adopted the rules on prevention and elimination of violence, bullying, harassment and other forms of psychosocial risks in the workplace, including a protocol for recognising and resolving such risks. In 2018, the Company recorded no such cases.

The Company follows the principles and guidelines of the rules on the management of conflicts of interest. The rules aim to mitigate the effects of conflicts of interest and manage conflicts of interest that may arise in the performance of the duties and tasks of individuals in the Company, by establishing and implementing procedures and measures to be applied when a conflict of interest arises.

Zavarovalnica Sava has in place a system to manage conflicts of interest. Using a written statement on disclosure of a conflict of interest, employees may report any conflict to their manager who examines the relevant situation, assesses the threat and proposes any measures to the compliance function holder. The compliance function analyses all received disclosures of the conflict of interests and issues a decision imposing measures relating to the disclosure of the conflict of interest. Last year a total of 67 disclosures of conflicts of interest were processed. Most of the disclosures referred to potential conflicts of interests in claims settlements, with regard to which only insignificant or minor risk of conflict of interest was assessed, meaning that a conflict of interest is extremely rare. Relevant measures were put in place in all discussed cases, ensuring consistent management of conflicts of interest.

In accordance with the rules, a clause on the management of conflicts of interest is included in contracts with contractual partners.

The scope of work of the office of the Sava Re management board also includes corporate security and fraud prevention and detection. Pursuant to the Sava Re compliance policy, prevention of fraud is one of the main responsibilities of the compliance function holder.

[101] GRI 405-1

Based on the recommendations made by the internal audit and also by the Insurance Supervision Agency, the Sava Re compliance officer prepared certain amendments to the compliance policy of Sava Re as well as of the Group companies. In order to avoid unnecessary duplication, both policies were combined into a single policy divided into three content sets. The first set refers to the compliance monitoring function in Group companies, the second set addresses specifics applicable solely to Sava Re d.d, while the third set refers to implementation of the compliance monitoring function at the level of the Sava Re Group. Some important policy changes consist in: planning activities, reporting on work and reporting on results and findings have been added as the main elements of the compliance system; the main areas of the work of the compliance function are redefined, in particular in the sense that the thematic areas relating to the controlling company and those relating to subsidiaries are separated; the content of the individual audit report is added (main findings of the audit, recommendations, the responsible person and deadlines for remedying the identified deficiencies); semi-annual reporting is introduced; cooperation with other key functions is put in place, etc. The Sava Re management board approved the proposed changes, and the consent of the supervisory board was also obtained. No major inconsistencies were detected in 2017.[102]

**The collection of used clothing at Sava Osiguruvanje is part of the Kopče project, which opened its first distribution point for used clothing in the centre of Skopje.**


[102] GRI 419-1

Pursuant to the Sava Re Group corporate governance policy, the recording of complaints addressed to Sava Re and relating to the operations of subsidiaries is also included in the scope of business functions. After complaints have been examined, they are submitted to subsidiaries for resolution. In the reporting period, the compliance officer established an online register of such complaints. Nine complaints were recorded in 2018.

Sava Re Group companies regularly and upon request report to local insurance regulators. As a public limited company, Sava Re also reports to the Securities Market Agency in accordance with the Financial Instruments Market Act (ZTFI), implementing regulations and the internal rules on trading in POSR shares.

In 2018, Zavarovalnica Sava received 54 reports that were processed by the complaints resolution officer. Most of them referred to violations of the insurance code and good business practices. In the cases examined, it was found that most of the complaints were unsubstantiated, and only in some cases were minor irregularities identified. Sava Re did not receive any such complaints.

Zavarovalnica Sava introduced a "Register of continuous improvements", which enables all employees to submit, by completing an online form, a report of an incident, inconsistency, deficiency or error that might relate to compliance of business operations, business processes, insurance products, risks and internal controls, as well as employees and internal relationships. Employees can also submit commendations, which promotes a positive attitude across the Company. In 2018, the register of continuous improvements received 23 requests. The online form does not allow for anonymous reports. A register of incidents in which employees enter perceived incidents is in the testing phase in Sava Re. In so doing, the Company encourages its employees to report all incidents that occur, and to take a constructive approach to future incident prevention.

In 2018, Zavarovalnica Sava implemented basic compliance standards that serve as a basis for further development of the compliance function. A regular, semi-annual reporting system has been established for the compliance function holders to report on significant compliance activities and identified inconsistencies. No major instances of non-compliance were detected in either Sava Re or Zavarovalnica Sava in 2018.[103]

[103] GRI 419-1

## Contributions to political parties[104]

In line with the adopted Code of Ethics and the Company's rules on sponsorship and donations, Sava Re and Zavarovalnica Sava do not finance political parties.

## 13.4.4 Responsibility to the community

Sava Re Group companies are aware of the importance of involvement in the environment in which we operate, and therefore we behave responsibly and beyond the formal boundaries of our core business. We firmly believe in cooperation, and therefore support projects that help institutions financially or through volunteering, and that allow us to become part of social development. Having already developed an extensive business network, Group companies can more easily recognise the needs and potentials of local communities in their respective countries. Certain members of our Group are among the co-founders of the Network for Social Responsibility of Slovenia, and members of the Institute for the Development of Social Responsibility and of the Partnership for National Strategy and Social Responsibility.[105]

## Sponsorships and donations by substance[106]

In 2018, Sava Re adopted the "Rules on sponsorships and donations", which replaced its "Sponsorship and donations policy". The rules upgraded the procedure dealing with the applications received and the method of allocating funds. A committee was also set up to handle applications, oversee and allocate the funds planned for donations and sponsorships.

The Company promotes social responsibility in the process of sustainable development, and strengthens its visibility, acts ethically and restores the environment, in particular by supporting and investing in education, development (emphasis on socially disadvantaged groups and individuals), humanitarian activities, health and social care (emphasis on socially vulnerable groups and individuals), ecology, and in areas that promote the development and growth of the economy, with an emphasis on start-up companies that develop innovative solutions.

At the end of the year, Sava Re intends to make a major donation to a selected charity using the funds planned for donations or the funds planned for business gifts. Employees give proposals for such a donation and vote on it.

[104] GRI 415-1
[105] GRI 102-13
[106] GRI 103-1, 103-2, 103-3, 203-2

As the largest member of the Group, present in direct business and active in two EU markets, Zavarovalnica Sava has a long-standing reputation and tradition as a socially responsible activist – also through its predecessors Zavarovalnica Maribor, Zavarovalnica Tilia, Velebit Osiguranje and Velebit Životno Osiguranje. Decisions on sponsorships and donations are dictated by the adopted "Rules on sponsorship and donations".

The goals and criteria measuring sponsorship performance are clearly defined. Sponsorship is viewed as a partnership that benefits both sides. Sponsorship activities constitute one of the pillars of the company's activity and are also integral to its traditional market presence. They are therefore closely connected to the company's operations and market presence, enhancing the brand in the environment in which it operates.

In 2018, Zavarovalnica Sava allocated EUR 2.2 million for sponsorships, with investment into sports activities declining by almost 7% compared to 2017. Sports activities were allocated 76% of the funds, with the remaining 24% going to other fields.

Donations form an integral part of the commitment to the wider community in which Zavarovalnica Sava operates. In 2018, donations increased by 13.8% compared to the previous year.

**Zavarovalnica Sava donations by substance**

| | 2018 | 2017 |
|---|---|---|
| **Charity** | 2.1% | 1.6% |
| **Arts** | 15.1% | 11.3% |
| **Science** | 0.4% | n/a |
| **Education** | 3.7% | 3.0% |
| **Sports** | 70.7% | 70.4% |
| **Social security** | 0.8% | 0.3% |
| **Disability** | 0.3% | 0.3% |
| **Healthcare** | 1.7% | 3.1% |
| **Protection against disasters** | 0.4% | 1.6% |
| **Other** | 4.8% | 8.3% |
| **Total** | **100.0%** | **100.0%** |

## Major sponsorships, donations and projects

Since a healthy lifestyle can have a very positive impact on business results, Zavarovalnica Sava allocates a large proportion of its sponsorship funds and donations to this area. It promotes sports at all levels, from recreation to professional sports.

- Football: main sponsor of Maribor Football Club and the Croatian football club Rijeka.
- Handball: sponsor of Handball Club Koper and Handball Club Maribor.
- Tennis: general sponsor and partner of Tennis Slovenia.
- Running: sponsor of Konjice marathon, main sponsor of Novo mesto ½ marathon, diamond sponsor of Ljubljana marathon.
- Skiing: main sponsor of Zlata Lisica (Golden Fox).
- Volleyball: sponsor of Nova KBM Branik Volleyball Club.
- Arts: main sponsor of the biggest Slovenian festival, Ljubljana Festival, and sponsor of Festival Lent.
- The Committed to Steps (Predani Korakom) project, which combines sponsorship of the Ljubljana Marathon, "Male avanture Marina Medaka" and a donation to the University Rehabilitation Institute, raises awareness on the importance of a balanced lifestyle.

Other Group companies also actively work together with local communities and support them through sponsorships and donations, with a focus on investments into sports activities. However, as none of them has a sponsorship and donations policy in place and since their contributions are minimal, they were not included in this report.

## Preventive action projects[107]

Most of the assets go to fire prevention, and Zavarovalnica Sava thus supports a number of fire brigades both at the local and national levels.

Cooperation with the national automobile association (AMZS) is crucial, and Zavarovalnica Sava maintained good relations with it in 2018, contributing to better road safety. Two major projects:

- The "Najboljši za volanom 2018" (Best Driver 2018) project was aimed at young drivers – raising awareness of the importance of road safety, and the acquisition of practical experience.
- Prior to the beginning of the new school year, the "Še 365 dni!" (365 Days to Go!) project informed drivers in the vicinity of schools and kindergartens that children would soon be back at school. The slogan made it clear that one needs to be very careful in traffic throughout the year.

[107] GRI 203-2, 413-1

## Corporate volunteerism[108]

The Sava Re Group supports corporate volunteerism (corporate charity). Its major volunteer project is the Sava Re Day, which has been bringing together employees from all Group members for eight years running. In collaboration with local organisations and associations, we invest our efforts in helping less privileged groups and individuals in our society through intergenerational programmes and by assisting in renovations or minor repair and maintenance jobs. We believe that we can significantly help local communities by involving employees in such projects, and at the same time build awareness of the importance of sustainability among our employees.

In 2018, the Save Re Day was part of the pan-Slovenian Day of Change organised by the Slovene Philanthropy – Association for the Promotion of Voluntary Work, under the auspices of Save Re and Zavarovalnica Sava. The Save Re Day was held on 6 April 2018 and attended by all Group companies operating in Slovenia and the Croatian branch of Zavarovalnica Sava. Other Group companies organised the Save Re Day as close as possible to World Water Day (22 March).

**In the framework of Sava Re Day 2018 Sava Re employees participated in the following volunteer activities**

| Organisation | Activities |
|---|---|
| **Home of Slovenian Philanthropy – Viška Hiška Ljubljana** | participation in the preparation of gardens for planting, rough landscaping, preparation of external walls for graffiti, consolidation of the parking areas, the making of a composter and painting of the workshop |
| **Livada LAB – urban learning laboratory** | physical removal of invasive plants that grow in the surrounding area |
| **Shelter for abandoned animals, Ljubljana** | spring cleaning of the surroundings, kennels and similar |
| **Shelter for abandoned animals, Horjul** | landscaping, preparation of kennels, stacking textile |

On Sava Re Day, Zavarovalnica Sava helped at more than 50 locations, with more than 860 employees participating. Later, a survey was conducted among the employees, which revealed that as many as 98% of the respondents are happy to participate in the Sava Re Day and that 80% of superiors encourage their employees to take part. In the future, most of the participants want to be part of the activities that are related to underprivileged people.

Given the response of employees and external organisations, Sava Re Day was once again a success. The objective – to help those in need through personal engagement and to raise awareness of the importance of sustainability – was clearly achieved.

[108] GRI 103-1, 103-2, 103-3, 413-1

In addition to Sava Re Day volunteer activities, Zavarovalnica Sava carried out two additional humanitarian projects in 2018 with the participation of its employees:

- The extremely well received "Sharing Christmas" event, an intergenerational social event, was organised for the third time last year. Residents of the old people's home in Novo Mesto were enchanted by a Christmas fairy tale – a workshop that focused on baking biscuits and gift wrapping worked together with the Slovenian "Santa for a Day" initiative.
- The second project, which takes place in December, is the "Christmas Dinner for All". The aim of the project is to invite employees to donate food for the less privileged in the local communities of the insurance company's business units. The project's mission goes beyond the donation of food; it aims to raise awareness about poverty in our communities and the importance of caring for each other, while building relations among socially sensitive staff members.

Both projects touched the hearts of everybody involved.

## Commitments to external initiatives[109]

In the Sava Re Group we participate in initiatives promoting ethical conduct and environmentally, socially and economically sustainable business practice. We comply with the fundamental standard of professional business conduct as laid down by the Insurance Code of the Slovenian Insurance Association. We follow the recommendations of the Ljubljana Stock Exchange for listed companies on disclosure of information and have signed the Slovenian Corporate Integrity Guidelines.

Sava Re's reference code is the Corporate Governance Code for Listed Companies adopted by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia on 27 October 2016.

## Membership in associations[110]

Sava Re is active in several professional associations: Slovenian Insurance Association, Slovenian Directors' Association, Chamber of Commerce and Industry of Slovenia, British-Slovenian Chamber of Commerce, Sors – meeting of insurance and reinsurance companies, Maritime Law Association of Slovenia, The Slovenian Institute of Auditors, CFA Institute, and Business Angels of Slovenia.

[109] GRI 102-12
[110] GRI 102-13

## 13.5 Environmental aspect[111]

Responsibility to the natural environment is understood through our own actions and by encouraging various stakeholders to respect established social principles and adopted practices aimed at protecting the environment. To this end, we adjusted a part of our business processes, and through various mechanisms and by supporting environmental protection initiatives, we embedded employee awareness of this responsibility into our business environment.

Guidelines that Sava Re has already implemented in the work process:

- Electronic pay slips
- Documents for the management board, supervisory board and committees in electronic form
- Office supplies that are recycled or manufactured using certified environmentally-friendly materials
- Each employee receives a water bottle
- Employees use city passenger transport services for business travel in the city, and the Urbana public transport card is available
- The Company leases two central printers
- Waste separation

### Waste disposal policy[112]

Separate waste collection (paper, packaging and municipal waste) is ensured in most locations in Slovenia. Waste is collected by approved or registered waste processors or collectors. In terms of the responsibility to the environment and in line with the purchasing policy, our suppliers and service providers are required to deliver proof of proper disposal of waste generated in mutual cooperation[113].

When examining and selecting the archives in 2018, Sava Re ensured adequate waste separation and carefully excluded the part to be recycled. All types of waste were transported to registered landfill sites and a sales agreement was made concerning waste paper. Sava Re employed a system of waste separation with an appropriate layout and number of containers for efficient general waste separation, but as we are not the sole owner in the office building, we do not have information on the amount of individual types of waste generated. In 2018, Sava Re decided for the first time to order half of the office paper from recycled materials.

Old electronic devices (computers, batteries, printers, monitors, telephones and similar) are collected by an authorised contractor that ensures e-waste is recycled and non-ferrous scrap metal is properly collected.

In Zavarovalnica Sava, where waste is recorded by type and quantity, the volume of waste has decreased by 3,816 kilograms in 2018 compared to the previous year.

**Waste collection in Zavarovalnica Sava by type and volume**

| Type of waste (in kilograms) | 2018 | 2017 |
|---|---|---|
| Mixed municipal waste | 94,687 | 69,915 |
| Biodegradable waste | 5,402 | 4,669 |
| Paper and cardboard packaging | n/a | 12,965 |
| Mixed packaging | 5,957 | 5,321 |
| Glass packaging | 1,310 | 1,441 |
| Paper and cardboard | 62,082 | 86,680 |
| Plastics | 214 | 1,030 |
| Metals | 1,310 | 50 |
| Waste printing toners | n/a | 827 |
| Discarded electrical and electronic equipment containing hazardous components | 890 | n/a |
| Discarded electrical and electronic equipment | 4,390 | n/a |
| Sawdust, shavings, cuttings, wood, particle board and veneer | 1,700 | n/a |
| Grease and oil mixture from oil/water separation containing only edible oil and fats | 1,140 | n/a |
| Total | 179,082 | 182,898 |

All waste was collected by authorised or registered waste collectors or processors at Zavarovalnica Sava's locations. Discarded electronic devices are collected by outside repairers who service them, or they are taken over by registered waste collectors or processors at the location of Zavarovalnice Sava. The amount of waste batteries is negligible (this waste is therefore collected for several years before it is handed over to the municipal waste service / waste separation).

Zavarovalnica Sava used remanufactured cartridges for printing and copying in 2018 and did not generate any additional waste.

Sava Pokojninska separates waste according to the instructions of the local utility company (separate collection of paper, bio-waste, plastic, metal, tetrapack). Waste is collected centrally in the business centre, while other types of waste are not generated by Sava Pokojninska. A contractual supplier collects discarded electronic devices and disposes them appropriately.

[111] GRI 103-1, 103-2, 103-3, 201-2
[112] GRI 103-1, 103-2, 103-3, 306-2
[113] GRI 414-1

## Paper consumption

**Average daily paper consumption (sheets of A4 paper) per employee (data refers to the company headquarters)**

| | 2018 | 2017 |
|---|---|---|
| Sava Re | 8.94 | 8.54 |
| Zavarovalnica Sava* | 28.9 | 29.6 |
| Sava Pokojninska | n/a | n/a |
| Sava Neživotno Osiguranje (SRB) | 12.46 | 12.7 |
| Sava Životno Osiguranje (SRB) | 12 | 11 |
| Sava Osiguruvanje (MKD) | 30 | 41 |
| Illyria | 13 | 15 |
| Illyria Life | n/a | n/a |
| Sava Osiguranje (MNE) | 26 | 24 |
| Sava Penzisko Društvo | 16 | 15 |
| **Total** | **147.30** | **156.84** |

* The data refers to the company's headquarters and all its business units in Slovenia.

## Energy consumption[114]

The primary energy sources for Sava Re are electricity and fossil fuels. In the renovation of business premises at Baragova street we agreed with the tenant to renovate and reorganise some of the existing systems by installing new energy-saving systems (cooling system, lighting) and to improve the energy efficiency of the existing systems (replacing the heating system regulation).

Zavarovalnica Sava uses primarily electricity for its operations (lighting, air-conditioning) and gas (heating). In 2018, Zavarovalnica Sava moved its premises in Celje and partly in Ljubljana. One of the key criteria in searching for or building new premises is energy efficiency. Due to the poor thermal insulation of the company's registered office at Cankarjeva 3 in Maribor, the obsolete equipment and installations and huge heat losses and the associated $CO_2$ emissions, Zavarovalnica Sava is considering a more suitable solution and premises that will be more user-friendly and environmentally friendly.

Group companies do not use renewable energy, and with the exception of Sava Pokojninska, a separate system for efficient capture and breakdown of such data has not been used. Carbon footprint measurements have not yet been performed. Since we are aware of the importance of such data in making progress towards sustainable development, we intend to establish an application for real estate monitoring and management in the next two years, which will enable the monitoring, collection, classification and processing of data on energy consumption, including calculations of the carbon footprint.

[114] GRI 302-1

## Key sustainable development guidelines and objectives

The Group has prepared a sustainability report for the second time. Part of the objectives set in the first report were achieved.

The sustainable development principles have been incorporated into some business processes (recruitment, sponsorships and donations, fair practices, etc.), while they are gradually introduced into other processes (purchasing process, investment management policy, etc.).

In 2018, employees were encouraged to live a healthy lifestyle and take care of their personal and professional growth and development through various measures.

By investing in prevention, sponsorship and donations, and through voluntary projects, we took care of local environments and do our best to help less privileged target groups.

In 2019, we will continue to maintain good practices that are already followed in the area of sustainable development. The following serve as the key guidelines we wish to follow and thus exercise a more sustainable impact on society and the environment in which we operate.

**Key sustainable development guidelines and objectives for 2019**

| | |
|---|---|
| Sustainable development strategy | • Development of a Group sustainable development strategy<br>• Introduction of the sustainability principles into all Group companies<br>• Appointment of sustainable development owners in all Group companies<br>• Establishment of a network of sustainable development owners in the Group |
| Responsibility to employees | • Identification of psychosocial risks among employees<br>• Implementation of preventive activities based on findings related to psychosocial risks<br>• Evaluation of employee commitment to and adoption of appropriate measures |
| Responsibility to the community | • Participation in preventive projects and programmes<br>• Identification of less privileged groups in our environment to help them<br>• Promotion of corporate and employee volunteerism |
| Sustainable operations | • Establishment of a common investment management policy of the Group<br>• Adherence to environmental, social and governance principles of sustainable development in investments<br>• Inclusion of sustainability criteria in the product development process<br>• Development or renewal of at least one insurance product that promotes sustainable development |
| Environmental impacts | • Establishment of a system for monitoring energy consumption<br>• Greenhouse gas emission reduction<br>• Waste minimisation |

# 14 Business processes and IT support

**In 2018, the Group's EU-based companies set up user committees for IT oversight, which focused on the computerisation of business processes. This good practice will be transferred to the Group's non-EU companies in 2019.**

As regards human resources, the situation is stable and we have no difficulties in attracting new people and external partners although this risk is rising around us. In the EU companies, we set up a process of self-audit of the security and maturity of IT processes using the COBIT methodology, which will become a standard part of the internal audit system and the IT risk management system in the entire Group as of 2019.

In IT management, we refined the set of internal controls and risks, improved the process of controlling IT costs and investments.

In addition to supporting the business and regulatory requirements of companies, business application development focused on the upgrade of IT processes in change management, in software development, and in the verification of the appropriateness of business solutions for asset management in accordance with the planned business needs in the future.

Data warehouses and business reporting have been identified as the key development axis at the Group level. Therefore, as part of the synergy with the IFRS 17 project, we are implementing a project of upgrading the existing business intelligence infrastructure, primarily in data integration and toward ensuring the appropriate quality of this data. These efforts will be continued in 2019, and an integrated platform for the development of common solutions will be established to enable effective information support to future implementation of various standards (IFRS 17, IFRS 9, Solvency II, etc.), data warehouses and reporting-analytical systems for business intelligence, suitable for the entire Sava Re Group.

In 2019, we will also significantly improve the technical and organisational capacities established in 2018 related to data management and data quality.

The field of infrastructure supported the operations, upgraded system software and hardware infrastructure in accordance with the business plan, and carried out architectural planning for a more extensive renovation cycle planned in 2019.

Cyber security was identified as one of the key IT responsibilities in 2019, also in terms of ensuring the business continuity of companies. In 2018, for this purpose we performed:

- a self-assessment of security,
- several penetration tests of business applications,
- a review of the security operations centre (SOC) market in Slovenia and abroad, and drafted a plan for the introduction of the SOC at the Group level in 2019.

In business continuity, we successfully carried out the tasks we set for ourselves.


Security
A family provides security. This is what we want for our customers and partners.

# 15 Auditor's report

**This is a translation of the original report in Slovene language**

## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Pozavarovalnica Sava d.d.**

### Opinion

We have audited the consolidated financial statements of the Sava Re Group ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Sava Re Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

<u>Estimations concerning premium recognition, technical provisions, reinsurance assets and liabilities – reinsurance</u>

The technical provisions of the Group consist solely of provisions related to reinsurance business. Part of those provisions are related to estimates based on input data received from cedants, underwriters' assumptions and historical data developed internally by the Group. The Group estimates technical provisions for business outside and inside Sava Re Group, taking into account estimated premium income (EPI) and estimated combined ratios (CR).

Those estimates also influence other significant areas within the consolidated financial statements, such as gross premium income and its related reinsurance receivables, commission and its related reinsurance liabilities and technical provisions. Premium estimates are made based on estimated premium income (EPI) for reinsurance contracts which, according to due dates, are already in force, although the Group has yet to receive reinsurance accounts on 31 December.

The Group prepares back testing analyses to assess the correctness of previous period assumption and builds projections on experience. Estimates are made depending on differences between annually estimated CR and actual CR on a contract level. Additionally, incurred but not reported claims (IBNR) are calculated independently by the Group to confirm reasonability of ceded amounts, using development triangles of cumulative claim payments by underwriting year.

Due to the significant level of assumptions involved in the estimations made by the underwriters and the actuary we consider this matter to be significant for our Group audit and a key audit matter.
We involved actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in setting of assumptions.

We assessed the design and verified the operating effectiveness of internal controls over the estimation process including the initial input of the data in the model based on reinsurance contracts as well as the later update of assumptions based on current information from cedants. We performed detailed analytical procedures on estimations related to premiums, commissions and technical provisions and assessed the experience (back testing) analyses performed by the Group in their assumption setting processes. We tested, on a sample basis, whether the input data in the model for recalculation of estimates is accurate and complete.

We reviewed the methodology and assumptions used by the Group to establish its IBNR losses and performed recalculation of Group's IBNR losses for a sample of the most significant lines of business. We reviewed the methodology used by the Group to calculate claim provisions established by estimation using actuarial methods. Furthermore, we performed a comparison between changes in IBNR losses in 2018 and actually liquidated claims in 2018 on a contract level. For any unexpected deviations in changes between IBNR losses and liquidated claims, we inquired with the management and obtained explanations. We performed additional testing procedures on a sample of reported but not settled losses (RBNS) to assess their adequacy. We verified the appropriateness of the valuation of unearned premium reserves (UPR) by detailed analytical procedures on estimations related to premiums, where we assessed the experience (back testing) analysis performed by the Group in their assumption setting processes. We also tested, on a sample basis, whether the input data in the model for recalculation of estimates is accurate and complete.

We assessed the adequacy of the disclosures included in notes 17.4.24 Technical provisions and 17.7.22 Technical provisions of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Estimates used in calculation of insurance liabilities, DAC and Liability Adequacy Test (LAT) – insurance

The measurement of insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities, including any guarantees provided to policyholders. Various economic and non-economic assumptions are being used to estimate these long-term liabilities, both in the insurance contract liabilities as reported in the balance sheet and in the reserve adequacy test. We determined this to be a significant item for our audit and a key auditing matter

We involved internal actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in setting of assumptions, particularly long-tail business in non-life operations and LAT cash flows in life products. We assessed the design and verified the operating effectiveness of internal controls over the actuarial process including claim provisions calculation, process of setting economic and actuarial assumptions as well as cash flow derivation approach. We assessed the Group's approach and methodology for the actuarial analyses including estimated versus actual results and experience studies. Our assessments included evaluation, as necessary, of specified economic and actuarial assumptions considering management's rationale for the actuarial judgments applied, along with comparison to applicable industry experiences considering the appropriateness of actuarial judgements used in the models, which may vary depending on the product and/or the specifications of the product, and also the compliance of the models with International Financial Reporting Standards as adopted by the European Union. We also performed audit procedures to determine the models and systems were calculating the insurance contracts liabilities accurately and completely, including sample recalculations of the results produced by the models. We tested the validity of management's LAT which is a test performed to evaluate whether the liabilities are adequate as compared to the expected future contractual obligations. Our work on the LAT included assessment of the projected cash flows and assessment of the assumptions adopted in the context of both the Group and industry experience and specific product features.



We assessed the adequacy of the disclosures included in notes 17.4.24 Technical provisions and 17.7.22 Technical provisions of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

**Other information**

Other information comprises the information included in the consolidated annual report other than the consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

**Responsibilities of management, supervisory board and audit committee for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Group's financial reporting process.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

• obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

**Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council**

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Company on 30 August 2016, our appointment was confirmed upon signing of engagement letter for audit of consolidated financial statements on 28 October 2016. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 6 years.

Consistence with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 27 March 2019.



Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated annual report and in the consolidated financial statements, no other services were provided by us to the Company and its controlled undertakings.

Ljubljana, 28 March 2019

Janez Uranič
Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

# 16 Consolidated financial statements

## 16.1 Consolidated statement of financial position

| (EUR) | Notes | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **ASSETS** | | **1,705,947,263** | **1,708,348,067** |
| **Intangible assets** | **1** | **37,121,118** | **22,712,944** |
| **Property, plant and equipment** | **2** | **42,893,432** | **45,438,014** |
| **Deferred tax assets** | **3** | **1,950,245** | **2,107,564** |
| **Investment property** | **4** | **20,643,019** | **15,364,184** |
| **Financial investments in associates** | **5** | **462,974** | **0** |
| **Financial investments:** | **6** | **1,008,097,470** | **1,038,125,019** |
| - loans and deposits | | 33,542,347 | 28,029,543 |
| - held to maturity | | 77,122,037 | 106,232,327 |
| - available for sale | | 885,017,410 | 897,645,279 |
| - at fair value through profit or loss | | 12,415,676 | 6,217,870 |
| **Funds for the benefit of policyholders who bear the investment risk** | **7** | **204,818,504** | **227,228,053** |
| **Reinsurers' share of technical provisions** | **8** | **27,292,750** | **30,787,241** |
| **Investment contract assets** | **9** | **135,586,965** | **129,622,131** |
| **Receivables** | **10** | **140,550,011** | **138,455,525** |
| Receivables arising out of primary insurance business | | 126,533,761 | 124,324,547 |
| Receivables arising out of co-insurance and reinsurance business | | 5,835,798 | 6,197,717 |
| Current tax assets | | 169,727 | 17,822 |
| Other receivables | | 8,010,725 | 7,915,439 |
| **Deferred acquisition costs** | **11** | **19,759,234** | **18,507,194** |
| **Other assets** | **12** | **2,064,220** | **2,043,395** |
| **Cash and cash equivalents** | **13** | **64,657,431** | **37,956,119** |
| **Non-current assets held for sale** | **14** | **49,890** | **684** |

| (EUR) | Notes | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | **1,705,947,263** | **1,708,348,067** |
| **Equity** | | **340,175,455** | **316,116,895** |
| Share capital | 15 | 71,856,376 | 71,856,376 |
| Capital reserves | 16 | 43,035,948 | 43,035,948 |
| Profit reserves | 17 | 183,606,914 | 162,548,076 |
| Own shares | 18 | -24,938,709 | -24,938,709 |
| Fair value reserve | 19 | 11,613,059 | 18,331,697 |
| Reserve due to fair value revaluation | | 836,745 | 667,518 |
| Retained earnings | 20 | 35,140,493 | 33,093,591 |
| Net profit or loss for the period | 20 | 21,843,940 | 14,557,220 |
| Translation reserve | | -3,368,928 | -3,353,304 |
| **Equity attributable to owners of the controlling company** | | **339,625,838** | **315,798,413** |
| **Non-controlling interest in equity** | **21** | **549,617** | **318,482** |
| **Technical provisions** | **22** | **920,491,487** | **931,398,362** |
| Unearned premiums | | 184,101,835 | 171,857,259 |
| Technical provisions for life insurance business | | 254,849,366 | 271,409,915 |
| Provision for outstanding claims | | 470,057,561 | 479,072,582 |
| Other technical provisions | | 11,482,725 | 9,058,606 |
| **Technical provision for the benefit of life insurance policyholders who bear the investment risk** | **22** | **210,032,637** | **226,527,893** |
| **Other provisions** | **23** | **7,730,247** | **7,600,613** |
| **Deferred tax liabilities** | **3** | **3,529,235** | **5,781,494** |
| **Investment contract liabilities** | **9** | **135,441,508** | **129,483,034** |
| **Other financial liabilities** | **24** | **243,095** | **245,205** |
| **Liabilities from operating activities** | **25** | **54,736,601** | **60,598,188** |
| Liabilities from primary insurance business | | 44,278,514 | 54,711,289 |
| Liabilities from reinsurance and co-insurance business | | 6,176,032 | 5,160,183 |
| Current income tax liabilities | | 4,282,055 | 726,716 |
| **Other liabilities** | **26** | **33,566,998** | **30,596,383** |

The notes to the financial statements in sections from 17.4 to 17.11 form an integral part of these financial statements.

## 16.2 Consolidated income statement[115]

| (EUR) | Notes | 2018 | 2017 |
|---|---|---|---|
| **Net earned premiums** | **28** | **504,669,701** | **470,865,993** |
| Gross premiums written | | 546,299,539 | 517,233,431 |
| Written premiums ceded to reinsurers and co-insurers | | -26,942,852 | -34,243,296 |
| Change in gross unearned premiums | | -11,415,695 | -13,765,765 |
| Change in unearned premiums, reinsurers' and co-insurers' shares | | -3,271,291 | 1,641,623 |
| **Investment income** | **29** | **26,802,161** | **27,446,915** |
| Interest income | | 16,459,186 | 18,607,327 |
| Other investment income | | 10,342,975 | 8,839,588 |
| **Net unrealised gains on investments of life insurance policyholders who bear the investment risk** | | **16,867,324** | **16,849,384** |
| **Other technical income** | **30** | **21,238,357** | **15,429,720** |
| Commission income | | 3,634,682 | 2,870,868 |
| Other technical income | | 17,603,675 | 12,558,852 |
| **Other income** | **30** | **14,549,676** | **6,058,000** |
| **Net claims incurred** | **31** | **-320,760,586** | **-296,103,320** |
| Gross claims payments, net of income from recourse receivables | | -342,556,518 | -309,727,160 |
| Reinsurers' and co-insurers' shares | | 12,460,118 | 15,846,528 |
| Change in the gross claims provision | | 9,913,517 | -2,931,960 |
| Change in the provision for outstanding claims, reinsurers' and co-insurers' shares | | -577,703 | 709,272 |
| **Change in other technical provisions** | **32** | **13,207,584** | **-2,179,849** |
| **Change in technical provisions for policyholders who bear the investment risk** | **32** | **15,962,680** | **-1,121,327** |
| **Expenses for bonuses and rebates** | | **288,628** | **5,848** |
| **Operating expenses** | **33** | **-178,131,437** | **-156,962,328** |
| Acquisition costs | | -58,372,509 | -51,949,127 |
| Change in deferred acquisition costs | | 1,598,536 | 2,389,002 |
| Other operating expenses | | -121,357,464 | -107,402,203 |
| **Expenses for investments in associates and impairment losses on goodwill** | | **-151,130** | **0** |
| Impairment loss on goodwill | 1 | -94,906 | 0 |
| Loss arising out of the investment in the equity-accounted associate company | 5 | -56,224 | 0 |
| **Expenses for financial assets and liabilities** | **29** | **-9,604,451** | **-11,891,544** |
| Impairment losses on financial assets not at fair value through profit or loss | | -1,943,975 | -320,000 |
| Interest expense | | -28,445 | -718,860 |
| Other investment expenses | | -7,632,031 | -10,852,684 |
| **Net unrealised losses on investments of life insurance policyholders who bear the investment risk** | | **-23,498,245** | **-8,256,416** |
| **Other technical expenses** | **34** | **-23,305,829** | **-17,486,080** |
| **Other expenses** | **34** | **-2,873,861** | **-2,774,013** |
| **Profit or loss before tax** | | **55,260,572** | **39,880,983** |
| **Income tax expense** | **35** | **-12,248,723** | **-8,786,075** |
| **Net profit or loss for the period** | | **43,011,849** | **31,094,908** |
| **Net profit or loss attributable to owners of the controlling company** | | **42,790,617** | **31,065,329** |
| **Net profit or loss attributable to non-controlling interests** | | **221,232** | **29,579** |
| **Earnings per share (basic and diluted)** | **20** | **2.76** | **2.00** |

The notes to the financial statements in sections from 17.4 to 17.11 form an integral part of these financial statements.

[115] GRI 102-7

## 16.3 Consolidated statement of other comprehensive income

| (EUR) | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Attributable to owners of the controlling company | Attributable to non-controlling interest | Total | Attributable to owners of the controlling company | Attributable to non-controlling interest | Total |
| **PROFIT OR LOSS FOR THE PERIOD, NET OF TAX** | **42,790,617** | **221,232** | **43,011,849** | **31,065,329** | **29,579** | **31,094,908** |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | **-6,565,036** | **1,630** | **-6,563,406** | **1,689,492** | **6,503** | **1,695,995** |
| **a) Items that will not be reclassified subsequently to profit or loss** | **169,227** | **0** | **169,227** | **315,865** | **0** | **315,865** |
| Other items that will not be reclassified subsequently to profit or loss | 190,794 | 0 | 190,794 | 386,089 | 0 | 386,089 |
| Tax on items that will not be reclassified subsequently to profit or loss | -21,567 | 0 | -21,567 | -70,224 | 0 | -70,224 |
| **b) Items that may be reclassified subsequently to profit or loss** | **-6,734,263** | **1,630** | **-6,732,633** | **1,373,627** | **6,503** | **1,380,130** |
| **Net gains/losses on remeasuring available-for-sale financial assets** | **-8,422,373** | **3,310** | **-8,419,063** | **851,240** | **4,184** | **855,424** |
| Net change recognised in the fair value reserve | -7,844,486 | 3,310 | -7,841,176 | 2,804,458 | 4,184 | 2,808,642 |
| Net change transferred from fair value reserve to profit or loss | -577,887 | 0 | -577,887 | -1,953,218 | 0 | -1,953,218 |
| **Tax on items that may be reclassified subsequently to profit or loss** | **1,703,734** | **0** | **1,703,734** | **21,508** | **0** | **21,508** |
| **Net gains/losses from translation of financial statements of non-domestic companies** | **-15,624** | **-1,680** | **-17,304** | **500,879** | **2,319** | **503,198** |
| **COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX** | **36,225,581** | **222,862** | **36,448,443** | **32,754,821** | **36,082** | **32,790,903** |
| **Attributable to owners of the controlling company** | **36,225,581** | **0** | **36,225,581** | **32,754,821** | **0** | **32,754,821** |
| **Attributable to non-controlling interest** | **0** | **222,862** | **222,862** | **0** | **36,082** | **36,082** |

The notes to the financial statements in sections from 17.4 to 17.11 form an integral part of these financial statements.

## 16.4 Consolidated statement of cash flows

| (EUR) | | Notes | 2018 | 2017 |
|---|---|---|---|---|
| **A. Cash flows from operating activities** | | | | |
| **a)** | **Items of the income statement** | **36** | **12,395,876** | **29,652,140** |
| 1. | Net premiums written in the period | 28 | 519,356,687 | 482,990,135 |
| 2. | Investment income (other than financial income) | 29 | 82,595 | 143,722 |
| 3. | Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables | | 35,788,033 | 21,487,720 |
| 4. | Net claims payments in the period | 31 | -330,096,400 | -293,880,632 |
| 5. | Expenses for bonuses and rebates | | 288,628 | 5,848 |
| 6. | Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs | 33 | -174,475,963 | -151,825,973 |
| 7. | Investment expenses (excluding amortisation and financial expenses) | | -119,291 | -54,102 |
| 8. | Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions) | 34 | -26,179,690 | -20,428,503 |
| 9. | Tax on profit and other taxes not included in operating expenses | 35 | -12,248,723 | -8,786,075 |
| **b)** | **Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the income statement** | | **-12,065,157** | **1,698,017** |
| 1. | Change in receivables from primary insurance | 10 | -2,209,214 | -72,983,726 |
| 2. | Change in receivables from reinsurance | 10 | 361,919 | 61,807,865 |
| 3. | Change in other receivables from (re)insurance business | 10 | -532,222 | 365,290 |
| 4. | Change in other receivables and other assets | 10 | 269,601 | -2,880,757 |
| 5. | Change in deferred tax assets | 3 | 157,319 | 218,499 |
| 6. | Change in inventories | | -5,395 | -28,879 |
| 7. | Change in liabilities arising out of primary insurance | 25 | -10,432,775 | 42,801,036 |
| 8. | Change in liabilities arising out of reinsurance business | 25 | 1,015,849 | -31,132,515 |
| 9. | Change in other operating liabilities | 26 | -524,718 | -2,442,917 |
| 10. | Change in other liabilities (except unearned premiums) | 26 | 2,086,738 | 6,231,258 |
| 11. | Change in deferred tax liabilities | 3 | -2,252,259 | -257,137 |
| **c)** | **Net cash from/used in operating activities (a + b)** | | **330,719** | **31,350,157** |

| (EUR) | | Notes | 2018 | 2017 |
|---|---|---|---|---|
| **B. Cash flows from investing activities** | | | | |
| **a)** | **Cash receipts from investing activities** | | **1,657,653,508** | **1,416,437,638** |
| 1. | Interest received from investing activities | | 16,459,186 | 18,607,327 |
| 2. | Cash receipts from dividends and participation in the profit of others | | 1,378,367 | 1,141,433 |
| 4. | Proceeds from sale of property, plant and equipment | | 4,156,317 | 2,707,118 |
| 5. | Proceeds from sale of financial investments | | 1,635,659,638 | 1,393,981,760 |
| **b)** | **Cash disbursements in investing activities** | | **-1,620,282,746** | **-1,405,529,717** |
| 1. | Purchase of intangible assets | | -1,547,018 | -1,177,107 |
| 2. | Purchase of property, plant and equipment | | -2,761,542 | -4,833,554 |
| 3. | Purchase of long-term financial investments | | -1,615,974,186 | -1,399,519,056 |
| **c)** | **Net cash from/used in investing activities (a + b)** | | **37,370,762** | **10,907,921** |
| **C. Cash flows from financing activities** | | | | |
| **b)** | **Cash disbursements in financing activities** | | **-12,426,602** | **-38,241,119** |
| 1. | Interest paid | | -28,445 | -718,860 |
| 3. | Repayment of long-term financial liabilities | | 0 | -24,000,000 |
| 4. | Repayment of short-term financial liabilities | | 0 | -1,058,233 |
| 5. | Dividends and other profit participations paid | | -12,398,157 | -12,464,026 |
| **c)** | **Net cash from/used in financing activities (a + b)** | | **-12,426,602** | **-38,241,119** |
| **C2. Closing balance of cash and cash equivalents** | | | **64,657,431** | **37,956,119** |
| **x)** | **Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)** | | **25,274,879** | **4,016,959** |
| **y)** | **Opening balance of cash and cash equivalents** | | **37,956,119** | **33,939,160** |
| Opening balance of cash and cash equivalents – acquisition | | | 1,426,433 | 0 |

The notes to the financial statements in sections from 17.4 to 17.11 form an integral part of these financial statements.

## 16.5 Consolidated statement of changes in equity for 2018

| (EUR) | I. Share capital | II. Capital reserves | III. Profit reserves | | | | IV. Fair value reserve | Reserve due to fair value revaluation | V. Retained earnings | VI. Net profit/ loss for the period | VII. Own shares | VIII. Translation reserve | IX. Equity attributable to owners of the controlling company | X. Non-controlling interest in equity | Total (15 + 16) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Legal reserves and reserves provided for in the articles of association | Reserve for own shares | Catastrophe equalisation reserve | Other | | | | | | | | | |
| | 1. | 2. | 4. | 5. | 7. | 8. | 9. | 10. | 11. | 12. | 13. | 14. | 15. | 16. | 17. |
| **Closing balance in previous financial year** | **71,856,376** | **43,035,948** | **11,578,919** | **24,938,709** | **11,225,068** | **114,805,380** | **18,331,697** | **667,518** | **33,093,591** | **14,557,220** | **-24,938,709** | **-3,353,304** | **315,798,413** | **318,482** | **316,116,895** |
| **Opening balance in the financial period** | **71,856,376** | **43,035,948** | **11,578,919** | **24,938,709** | **11,225,068** | **114,805,380** | **18,331,697** | **667,518** | **33,093,591** | **14,557,220** | **-24,938,709** | **-3,353,304** | **315,798,413** | **318,482** | **316,116,895** |
| **Comprehensive income for the period, net of tax** | **0** | **0** | **0** | **0** | **0** | **0** | **-6,718,639** | **169,227** | **0** | **42,790,617** | **0** | **-15,624** | **36,225,581** | **222,862** | **36,448,443** |
| a) Net profit or loss for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 42,790,617 | 0 | 0 | 42,790,617 | 221,232 | 43,011,849 |
| b) Other comprehensive income | 0 | 0 | 0 | 0 | 0 | 0 | -6,718,639 | 169,227 | 0 | 0 | 0 | -15,624 | -6,565,036 | 1,630 | -6,563,406 |
| Dividend payouts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -12,398,157 | 0 | 0 | 0 | -12,398,157 | 0 | -12,398,157 |
| Allocation of net profit to profit reserve | 0 | 0 | 125,090 | 0 | 0 | 20,933,748 | 0 | 0 | -112,161 | -20,946,677 | 0 | 0 | 0 | 0 | 0 |
| Transfer of profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14,557,220 | -14,557,220 | 0 | 0 | 0 | 0 | 0 |
| Acquisition, subsidiary | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,273 | 8,273 |
| **Closing balance in the financial period** | **71,856,376** | **43,035,948** | **11,704,009** | **24,938,709** | **11,225,068** | **135,739,128** | **11,613,059** | **836,745** | **35,140,493** | **21,843,940** | **-24,938,709** | **-3,368,928** | **339,625,838** | **549,617** | **340,175,455** |

The notes to the financial statements in sections from 17.4 to 17.11 form an integral part of these financial statements.

## 16.6 Consolidated statement of changes in equity for 2017

| (EUR) | I. Share capital | II. Capital reserves | III. Profit reserves | | | | IV. Fair value reserve | Reserve due to fair value revaluation | V. Retained earnings | VI. Net profit/ loss for the period | VII. Own shares | VIII. Translation reserve | IX. Equity attributable to owners of the controlling company | X. Non-controlling interest in equity | Total (15 + 16) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Legal reserves and reserves provided for in the articles of association | Reserve for own shares | Catastrophe equalisation reserve | Other | | | | | | | | | |
| | 1. | 2. | 4. | 5. | 7. | 8. | 9. | 10. | 11. | 12. | 13. | 14. | 15. | 16. | 17. |
| **Closing balance in previous financial year** | **71,856,376** | **43,681,441** | **11,411,550** | **24,938,709** | **11,225,068** | **98,318,285** | **17,458,948** | **351,655** | **36,778,941** | **9,049,238** | **-24,938,709** | **-3,854,182** | **296,277,319** | **761,008** | **297,038,327** |
| Prior-period restatements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | -190,075 | 0 | 0 | 0 | -190,075 | 0 | -190,075 |
| **Opening balance in the financial period** | **71,856,376** | **43,681,441** | **11,411,550** | **24,938,709** | **11,225,068** | **98,318,285** | **17,458,948** | **351,655** | **36,588,866** | **9,049,238** | **-24,938,709** | **-3,854,182** | **296,087,244** | **761,008** | **296,848,252** |
| **Comprehensive income for the period, net of tax** | **0** | **0** | **0** | **0** | **0** | **0** | **872,748** | **315,865** | **0** | **31,065,329** | **0** | **500,879** | **32,754,821** | **36,082** | **32,790,903** |
| a) Net profit or loss for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 31,065,329 | 0 | 0 | 31,065,329 | 29,579 | 31,094,908 |
| b) Other comprehensive income | 0 | 0 | 0 | 0 | 0 | 0 | 872,748 | 315,865 | 0 | 0 | 0 | 500,879 | 1,689,492 | 6,503 | 1,695,995 |
| Dividend payouts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -12,398,157 | 0 | 0 | 0 | -12,398,157 | -65,869 | -12,464,026 |
| Allocation of net profit to profit reserve | 0 | 0 | 167,369 | 0 | 0 | 16,487,095 | 0 | 0 | -146,356 | -16,508,109 | 0 | 0 | 0 | 0 | 0 |
| Transfer of profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,049,238 | -9,049,238 | 0 | 0 | 0 | 0 | 0 |
| Acquisition of non-controlling interest | 0 | -645,493 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -645,493 | -412,740 | -1,058,233 |
| **Closing balance in the financial period** | **71,856,376** | **43,035,948** | **11,578,920** | **24,938,709** | **11,225,068** | **114,805,380** | **18,331,697** | **667,518** | **33,093,591** | **14,557,220** | **-24,938,709** | **-3,353,304** | **315,798,413** | **318,482** | **316,116,895** |

The notes to the financial statements in sections from 17.4 to 17.11 form an integral part of these financial statements.

# 17 Notes to the consolidated financial statements

## 17.1 Basic details

### Reporting company

Sava d.d. (hereinafter also "Sava Re" or the "Company") is the controlling company of the Sava Re Group (hereinafter also "the Group"). It was established under the Foundations of the Life and Non-Life Insurance System Act, and was entered in the company register kept by the Ljubljana Basic Court, Ljubljana Unit (now Ljubljana District Court), on 10 December 1990. Its legal predecessor, Pozavarovalna Skupnost Sava, was established in 1977.

The controlling company, Sava Re d.d., has its business address at Dunajska cesta 56, Ljubljana, Slovenia.

The Group transacts reinsurance business (18% of income), non-life insurance business (64% of income), life insurance business (16% of income), pension business (1% of income) and other non-insurance business (1% of income).

In 2018 the Group employed on average 2,403 people (2017: 2,438 employees) on a full-time equivalent basis. As at 31 December 2018, the total number of employees was 2,417 (31/12/2017: 2,389 employees) on a full-time equivalent basis. Statistics on employees in regular employment by various criteria are given in section 10 "Human resources management".

**Number of employees by level of formal education**

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Primary and lower secondary education | 10 | 14 |
| Secondary education | 1,038 | 1,095 |
| Higher education | 303 | 294 |
| University education | 948 | 892 |
| Master's degree and doctorate | 118 | 94 |
| **Total** | **2,417** | **2,389** |

Statistics on the educational background of employees in 2017 differ from those published in the 2017 annual report because in one company part of the employees with secondary education (up to and including the 3rd grade of secondary school) were shown under the primary and lower secondary education item.

The controlling company has the following bodies: the general meeting of shareholders, the supervisory board and the management board.

The largest shareholder of the controlling company is Slovenian Sovereign Holding with a 17.7% stake. The second largest shareholder is Zagrebačka Banka (custodial account) with a 14.2% ownership interest, and the third largest the Republic of Slovenia with a 10.1% stake. The table "Ten largest shareholders of Sava Re as at 31 December 2018" (section 5.6) is followed by a note on the share of voting rights (section 5.6).

It is the responsibility of the controlling company's management board to prepare the consolidated annual report and authorise it for issue. The audited consolidated annual report is approved by the supervisory board of the controlling company. If the annual report is not approved by the supervisory board, or if the management board and supervisory board leave the decision about its approval (authorisation for issue) to the general meeting of shareholders, the general meeting decides on the approval (authorisation for issue) of the annual report.

The owners have the right to amend the financial statements after they have been authorised for issue to the supervisory board by the Company's management board.

## 17.2 Business combinations and overview of Group companies[116]

In January 2018, the acquisition of the Slovenia-based TBS Team 24 was carried out. The controlling company became the owner of 75% of the company. The first consolidated accounts of the Sava Re Group after TBS Team 24 joined were prepared as at 31 January 2018. The following table shows the fair value of the net assets of the company acquired in the business combination, including goodwill recognised.

| (EUR) | TBS Team 24 |
|---|---|
| Intangible assets | 2,942 |
| Property, plant and equipment | 106,510 |
| Receivables | 2,003,806 |
| Cash and cash equivalents | 14,951 |
| Other assets | 180,198 |
| **A. Total assets** | **2,308,407** |
| Liabilities from operating activities and other liabilities | 2,275,309 |
| **B. Total liabilities** | **2,275,309** |
| Fair value of net assets acquired (A – B) | 33,098 |
| Non-controlling interest in equity as at 31 January 2018 | 8,274 |
| Temporary allocation to goodwill | 2,787,676 |
| **Market value of investment as at 31 January 2018** | **2,812,500** |

| (EUR) | TBS Team 24 |
|---|---|
| Acquisition of share | -2,812,500 |
| Net cash acquired in the business combination | 14,951 |
| **Net cash flow in the business combination** | **-2,797,549** |

[116] GRI 102-7, 102-45

In March 2018, the acquisitions of the two companies Energoprojekt Garant and Sava Penzisko Društvo were finalised. The controlling company became the owner of a 92.94% stake in Energoprojekt Garant and sole owner of Sava Penzisko Društvo. The first consolidated accounts of the Sava Re Group after Energoprojekt Garant and Sava Penzisko Društvo joined were prepared as at 31 March 2018. The following table shows the fair value of the net assets of the companies acquired in the business combination and goodwill recognised.

In July 2018, the controlling company acquired another 7.1% stake to become the sole owner of Energoprojekt Garant.

The Group merged Energoprojekt Garant with Sava Neživotno Osiguranje (SRB) on 31 December 2018.

| (EUR) | Energoprojekt Garant |
|---|---|
| Intangible assets | 16,156 |
| Property, plant and equipment | 32,992 |
| Investment property | 1,972,586 |
| Financial investments | 5,425,457 |
| Reinsurers' share of technical provisions | 181,305 |
| Receivables | 340,752 |
| Cash and cash equivalents | 751,942 |
| Other assets | 29,023 |
| **A. Total assets** | **8,750,213** |
| Technical provisions | 1,846,333 |
| Other provisions | 3,011 |
| Deferred tax liabilities | 1,032 |
| Liabilities from operating activities and other liabilities | 147,437 |
| **B. Total liabilities** | **1,997,814** |
| **Fair value of net assets acquired (A – B)** | **6,752,398** |
| **Non-controlling interest in equity as at 31/03/2018** | **476,719** |
| **Goodwill** | **54,356** |

| (EUR) | Energoprojekt Garant |
|---|---|
| Acquisition of share | -6,330,035 |
| Net cash acquired in the business combination | 751,942 |
| **Net cash flow in the business combination** | **-5,578,093** |

In 2018, the company Energoprojekt Garant was merged with Sava Neživotno Osiguranje (SRB), to which the relevant goodwill is added.

| (EUR) | Sava Penzisko Društvo |
|---|---|
| Intangible assets | 38,971 |
| Property, plant and equipment | 17,448 |
| Financial investments | 7,917,244 |
| Receivables | 13,076 |
| Cash and cash equivalents | 46,440 |
| Other assets | 311,408 |
| **A. Total assets** | **8,344,587** |
| Other provisions | 60,602 |
| Deferred tax liabilities | 17,812 |
| Liabilities from operating activities and other liabilities | 441,600 |
| **B. Total liabilities** | **520,014** |
| **Fair value of net assets acquired (A – B)** | **7,824,573** |
| **Temporary allocation to goodwill** | **11,710,411** |
| **Market value of investment as at 31/3/2018** | **19,534,984** |

| (EUR) | Sava Penzisko Društvo |
|---|---|
| Acquisition of share | -19,534,984 |
| Net cash acquired in the business combination | 46,440 |
| **Net cash flow in the business combination** | **-19,488,544** |

The increase in goodwill acquired through the acquisition of Sava Penzisko Društvo and TBS Team 24 is temporary in nature as the Company will examine the option of reclassifying part of the goodwill to the customer list as part of the one-year term for allocation of the purchase consideration in accordance with IFRS 3.

In September 2018, the company ZTSR d.o.o. was founded. Its registered nominal capital was EUR 250,000. Sava Re contributed EUR 125,000, representing a 50% stake.

The acquisition of the Slovenia-based company Sava Terra was completed in the fourth quarter of 2018. The Group became the sole owner of the company.

| (EUR) | Sava Terra |
|---|---|
| Investment property | 4,491,494 |
| Receivables | 58,972 |
| Cash and cash equivalents | 44,028 |
| Other assets | 2,528 |
| **A. Total assets** | **4,597,022** |
| Deferred tax liabilities | 151,144 |
| Other financial liabilities | 1,922,887 |
| Liabilities from operating activities and other liabilities | 30,222 |
| **B. Total liabilities** | **2,104,253** |
| **Fair value of net assets acquired (A - B)** | **2,492,769** |
| **Market value of investment as at 31/12/2018** | **2,492,769** |

| (EUR) | Sava Terra |
|---|---|
| Acquisition of share | -2,492,769 |
| Net cash acquired in the business combination | 44,028 |
| **Net cash flow in the business combination** | **-2,448,741** |

Below are presented individual items of the statement of financial position and the income statement based on the separate financial statements of subsidiaries and associates, as prepared in line with IFRSs, together with the controlling company's share of voting rights.

### Subsidiaries as at 31 December 2018

| (EUR) | Activity | Registered office | Assets | Liabilities | Equity at 31/12/2018 | Profit/loss for 2018 | Total income | Share of voting rights |
|---|---|---|---|---|---|---|---|---|
| Zavarovalnica Sava | insurance | Slovenia | 1,116,725,121 | 965,579,104 | 151,146,017 | 29,540,622 | 369,578,351 | 100.00% |
| Sava Neživotno Osiguranje (SRB) | insurance | Serbia | 37,424,870 | 23,539,092 | 13,885,778 | 1,049,526 | 19,382,373 | 100.00% |
| Illyria | insurance | Kosovo | 16,282,240 | 12,497,895 | 3,784,345 | -390,799 | 9,275,173 | 100.00% |
| Sava Osiguruvanje (MKD) | insurance | North Macedonia | 21,605,383 | 15,711,159 | 5,894,224 | 391,284 | 12,279,274 | 92.57% |
| Sava Osiguranje (MNE) | insurance | Montenegro | 24,107,226 | 17,795,094 | 6,312,132 | 1,943,280 | 12,967,612 | 100.00% |
| Illyria Life | insurance | Kosovo | 10,951,393 | 6,274,659 | 4,676,734 | 305,169 | 2,373,425 | 100.00% |
| Sava Životno Osiguranje (SRB) | insurance | Serbia | 7,556,316 | 4,051,087 | 3,505,229 | -168,562 | 2,551,457 | 100.00% |
| Illyria Hospital | currently none | Kosovo | 1,800,736 | 4,495 | 1,796,241 | -6 | 0 | 100.00% |
| Sava Car | research and analysis | Montenegro | 739,077 | 169,564 | 569,513 | -2,476 | 729,633 | 100.00% |
| ZM Svetovanje | consulting and marketing of insurances of the person | Slovenia | 159,874 | 81,844 | 78,030 | 16,513 | 958,813 | 100.00% |
| Ornatus KC | ZS call centre | Slovenia | 40,797 | 19,260 | 21,537 | -5,316 | 216,000 | 100.00% |
| Sava Agent | insurance agency | Montenegro | 1,970,854 | 1,853,597 | 117,257 | 80,911 | 701,752 | 100.00% |
| Sava Station | motor research and analysis | North Macedonia | 343,772 | 24,715 | 319,057 | 29,778 | 160,281 | 92.57% |
| Sava Pokojninska | pension fund | Slovenia | 151,140,812 | 144,024,695 | 7,116,117 | 258,571 | 4,181,039 | 100.00% |
| TBS Team 24 | assistance service provider and customer care | Slovenia | 2,370,342 | 1,577,490 | 792,852 | 759,757 | 10,219,623 | 75.00% |
| Sava Penzisko Društvo | pension fund management | North Macedonia | 8,842,761 | 352,077 | 8,490,684 | 1,133,199 | 2,935,355 | 100.00% |
| Sava Terra | leasing and operation of own and leased property | Slovenia | 3,801,526 | 1,953,108 | 1,848,418 | -147,863 | 160,196 | 100.00% |

### Subsidiaries as at 31 December 2017

| (EUR) | Activity | Registered office | Assets | Liabilities | Equity at 31/12/2017 | Profit/loss for 2017 | Total income | Share of voting rights |
|---|---|---|---|---|---|---|---|---|
| Zavarovalnica Sava | insurance | Slovenia | 1,151,811,161 | 993,756,083 | 158,055,078 | 25,080,999 | 344,712,649 | 100.00% |
| Sava Neživotno Osiguranje (SRB) | insurance | Serbia | 28,216,687 | 22,507,562 | 5,709,125 | 435,559 | 16,463,580 | 100.00% |
| Illyria | insurance | Kosovo | 15,577,678 | 11,538,509 | 4,039,169 | 223,576 | 7,689,674 | 100.00% |
| Sava osiguruvanje (MKD) | insurance | North Macedonia | 22,867,851 | 17,374,464 | 5,493,387 | 358,257 | 12,277,755 | 92.57% |
| Sava Osiguranje (MNE) | insurance | Montenegro | 23,036,708 | 17,241,924 | 5,794,784 | 1,232,772 | 12,124,229 | 100.00% |
| Illyria Life | insurance | Kosovo | 12,699,600 | 8,502,872 | 4,196,728 | 230,850 | 2,038,449 | 100.00% |
| Sava Životno Osiguranje (SRB) | insurance | Serbia | 6,645,739 | 3,162,191 | 3,483,548 | -818,333 | 2,058,571 | 100.00% |
| Illyria Hospital | currently none | Kosovo | 1,800,742 | 4,579 | 1,796,163 | -114 | 0 | 100.00% |
| Sava Car | research and analysis | Montenegro | 634,723 | 42,188 | 592,535 | -3,991 | 724,473 | 100.00% |
| ZM Svetovanje | consulting and marketing of insurances of the person | Slovenia | 126,917 | 203,900 | -76,983 | -194,224 | 737,056 | 100.00% |
| Ornatus KC | ZS call centre | Slovenia | 48,314 | 21,461 | 26,853 | 15,853 | 216,000 | 100.00% |
| Sava Agent | insurance agency | Montenegro | 2,100,120 | 1,798,730 | 301,390 | 112,971 | 651,469 | 100.00% |
| Sava Station | motor research and analysis | North Macedonia | 316,750 | 25,614 | 291,136 | 39,731 | 175,454 | 92.57% |
| Sava Pokojninska | pension fund | Slovenia | 144,935,935 | 136,508,976 | 8,426,959 | 420,256 | 4,269,651 | 100.00% |

## 17.3 Consolidation principles

The controlling company has prepared both separate and consolidated financial statements for the year ended 31 December 2018. The consolidated financial statements include Sava Re as the controlling company and all its subsidiaries, i.e. companies in which Sava Re holds, directly or indirectly, more than half of the voting rights and has the power to control the financial and operating policies so as to obtain benefits from its activities. It is also of key importance for the satisfaction of the conditions mentioned above that, in the event of a takeover of the insurance company, the controlling company obtains all required approvals and consents (from the Insurance Supervision Agency and other supervisory institutions).

All subsidiaries were fully consolidated in the Sava Re Group.

The financial year of the Group is the same as the calendar year.

Business acquisitions are accounted for by applying the purchase method. Subsidiaries are fully consolidated as of the date of obtaining control and they are deconsolidated as of the date that such control is lost. At the time of an entity's first consolidation, its assets and liabilities are measured at fair value. Any excess of the market value over the share of the fair value of the acquired identifiable assets, liabilities and contingent liabilities is capitalised as goodwill.

When acquiring a non-controlling interest in a subsidiary (when the Group already holds a controlling interest), the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. The Group recognises directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid, and attributes it to the owners of the controlling company. The difference between cost and the carrying amount of the non-controlling interest is accounted for in equity under capital reserves.

Profits earned and losses made by subsidiaries are included in the Group's income statement. Intra-Group transactions (receivables and liabilities, expenses and income between the consolidated companies) have been eliminated.

## 17.4 Significant accounting policies

Below is a presentation of significant accounting policies applied in the preparation of the consolidated financial statements. In 2018, the Group applied the same accounting policies as in 2017.

### 17.4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretations Committee's (IFRIC), as adopted by the European Union. They were also prepared in accordance with applicable Slovenian legislation (the Companies Act, ZGD-1).

Interested parties can obtain information on the results of operations of the Sava Re Group by consulting the annual report. Annual reports are available on Sava Re's website and at its registered office.

In selecting and applying accounting policies, as well as in preparing the financial statements, the management board of the controlling company aims at providing understandable, relevant, reliable and comparable accounting information.

The financial statements have been prepared based on the going-concern assumption.

The management board of the controlling company approved the audited financial statements on 28 March 2019.

### 17.4.2 Measurement bases

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, which are measured at fair value. Assets of policyholders who bear the investment risk are also measured at fair value.

## 17.4.3 Presentation currency, translation of transactions and items

The financial statements are presented in euros (EUR), rounded to the nearest euro. The euro is the functional and presentation currency of the Group. Due to rounding, figures in tables may not add up to the totals.

Assets and liabilities as at 31 December 2018 denominated in foreign currencies have been translated into euros using the mid-rates of the European Central Bank (hereinafter: ECB) as at 31 December 2018. Amounts in the income statements have been translated using the average exchange rate. As at 31 December 2017 and 31 December 2018, they were translated using the then applicable mid-rates of the ECB. Foreign exchange differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in the fair value reserve. Since equity items in the statement of financial position as at 31 December 2018 are translated using the exchange rates of the ECB on that day and since interim movements are translated using the average exchange rates of the ECB, any differences arising therefrom are disclosed in the equity item translation reserve.

## 17.4.4 Use of major accounting estimates and sources of uncertainty

Assumptions and other sources of uncertainty relate to estimates that require management to make difficult, subjective and complex judgements. Areas that involve major management judgement are presented below.

- Calculation of goodwill, its measurement and impairment is determined using the accounting policy under 17.4.9 and note 1.
- Deferred tax assets are recognised if Group entities plan to realise a profit in the medium-term projections.
- Receivables are impaired based on the accounting policy set out in section 17.4.18. Any recognised impairment loss is shown in note 10.
- Financial investments: Classification, recognition, measurement and derecognition, as well as investment impairment and fair value measurement, are made based on the accounting policy set out in section 17.4.15. Movements in investments and their classification are shown in note 6, while the associated income and expenses, and impairment, are shown in note 29.
- Technical provisions – calculation and liability adequacy tests pertaining to insurance contracts are shown in sections 17.4.24–27. Movements in these provisions are shown in note 22.

## 17.4.5 Materiality

To serve as a starting point in determining a materiality threshold for the consolidated financial statements, the management used the equity of the Sava Re Group, specifically 2% thereof as at 31 December 2018, which is EUR 6.8 million. The disclosures and notes required to meet regulatory or statutory requirements are presented, despite their being below the materiality threshold.

## 17.4.6 Cash flow statement

The cash flow statement has been prepared using the indirect method. The Group cash flow statement was prepared as the sum of all cash flows of all Group companies less any inter-Group cash flows. Cash flows from operating activities have been prepared based on data from the 2018 statement of financial position and income statement, with appropriate adjustments for items that do not constitute cash flows. Cash flows from financing activities are shown based on actual disbursements. Items relating to changes in net operating assets are shown in net amounts.

## 17.4.7 Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the period. Profit reserves also include the reserve for own shares and the catastrophe equalisation reserve.

## 17.4.8 Intangible assets

Intangible assets, except goodwill, are stated at cost, including any expenses directly attributable to preparing them for their intended use, less accumulated amortisation and any impairment losses. Amortisation is calculated for each item separately, on a straight-line basis, except for goodwill, which is not amortised. Intangible assets are first amortised upon their availability for use.

Intangible assets in the Group include computer software, licences pertaining to computer software (their useful life is assumed to be five years).

### 17.4.9 Goodwill

Goodwill arises on the acquisition of subsidiaries. In acquisitions, goodwill relates to the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company. If the excess is negative (badwill), it is recognised directly in the income statement. The recoverable amount of the cash-generating unit so calculated is compared against its carrying amount, including goodwill belonging to such unit. The recoverable amount is value in use.

For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made. Movement in goodwill is discussed in detail in note 1 of section 17.7.

Goodwill of associate companies is included in their carrying amount. Any impairment losses on goodwill of associate companies are treated as impairment losses on investments in associate companies.

Section 17.7, note 1, sets out the main assumptions for cash flow projections used in the calculation of the value in use.

### 17.4.10 Property, plant and equipment

Property, plant and equipment assets are initially recognised at cost, including cost directly attributable to acquisition of the asset. Subsequently, the cost model is applied: assets are carried at cost, less any accumulated depreciation and any impairment losses. For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made.

Property, plant and equipment assets are first depreciated upon their availability for use. Depreciation is calculated for each item separately, on a straight-line basis. Depreciation rates are determined so as to allow the cost of property, plant and equipment assets to be allocated over their estimated useful lives.

**Depreciation rates of property, plant and equipment assets**

| Depreciation group | Rate |
|---|---|
| Land | 0% |
| Buildings | 1.3–2% |
| Transportation | 15.5–20% |
| Computer equipment | 33.0% |
| Office and other furniture | 10–12.5% |
| Other equipment | 6.7–20% |

The Group assesses annually whether there is any indication of impairment. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

Gains and losses on the disposal of items of property, plant and equipment, calculated as the difference between sales proceeds and carrying amounts, are included in profit or loss. The costs of property, plant and equipment maintenance and repairs are recognised in profit or loss as incurred. Investments in property, plant and equipment assets that increase future economic benefits are recognised in their carrying amount.

### 17.4.11 Right-to-use assets during lease terms

As of 1 January 2019, the Group will include under assets the right to use lease assets as the present value of future lease payments due to the implementation of the new standard IFRS 16. The carrying amounts of the right-of-use assets will be reduced by means of adjustments equalling the remaining lease payments or amortisation calculated in view of the lease term. The Group will recognise lease payments relating to short-term and low-value leases as an expense.

### 17.4.12 Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, its sale must be highly probable and it must be available for immediate sale in its present condition. The Group must be committed to the sale and must realise it within one year. Such assets are measured at the lower of the assets' carrying amount or fair value less costs to sell, and are not depreciated.

## 17.4.13 Deferred tax assets and liabilities

Deferred tax assets and liabilities are amounts of income taxes expected to be recoverable or payable, respectively, in future periods depending on taxable temporary differences. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

The Group establishes deferred tax assets for temporary tax non-deductible impairments of portfolio investments. Deferred tax assets are additionally established for impairment losses on receivables, unused tax losses and for provisions for employees. Deferred tax liabilities were recognised for catastrophe equalisation reserves transferred (as at 1 January 2007) from technical provisions to profit reserves, which used to be tax-deductible when set aside (prior to 1 January 2007).

In addition, the Group establishes deferred tax assets and liabilities for that part of value adjustments recorded under negative fair value reserve. Deferred tax assets and liabilities are also accounted for actuarial gains or losses arising on the calculation of provisions for severance pay upon retirement. This is because actuarial gains/losses affect comprehensive income as well as the related deferred tax assets/liabilities.

The Group does not set off deferred tax assets and liabilities.

A deferred tax asset is recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In 2018, no deferred tax assets of this kind were recognised by the Group.

In 2018, deferred tax assets and liabilities were accounted for using tax rates that in the management's opinion will be used to actually tax the differences; these are from 9% to 19% (2017: from 9 to 19%).

## 17.4.14 Investment property

Investment property relates to assets that the Group does not use directly in carrying out its activities, but holds to earn rent or to realise capital gains at disposal. Investment property is accounted for using the cost model and the straight-line depreciation method. Investment property is depreciated at the rate of 1.3–2%. The basis for calculating the depreciation rate is the estimated useful life. All leases where the Group acts as lessor are cancellable operating leases. Payments and/or rentals received are recognised as income on a straight-line basis over the term of the lease. For the purpose of impairment testing, an allocation to cash-generating units representing individual companies has been made. The Group assesses annually whether there is an indication of impairment of investment property. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of the value in use and the net selling price less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

The Group measures the fair value of investment property using fair value models. The fair values of investment property in Slovenia were verified based on appraisals made by certified property appraisers in 2016, while the values of investment property in Serbia were verified in 2018.

## 17.4.15 Financial investments and funds for the benefit of policyholders who bear the investment risk

### 17.4.15.1 Classification

The Group classifies its financial assets into the following categories:

**Financial assets at fair value through profit or loss**

This category consists of the following two sub-categories:
- financial assets held for trading, and
- financial assets designated as at fair value through profit or loss.

Financial assets held for trading comprise instruments that have been acquired exclusively for the purpose of trading, i.e. realising gains in the short term. Financial assets at fair value through profit or loss also comprise funds for the benefit of policyholders who bear the investment risk.

**Held-to-maturity financial assets**

Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Group can, and intends to, hold to maturity.

**Available-for-sale financial assets**

Available-for-sale financial assets are assets that the Group intends to hold for an indefinite period and are not classified as financial assets at fair value through profit or loss or held to maturity financial assets.

**Loans and receivables (deposits)**

This category includes loans and bank deposits with fixed or determinable payments that are not traded in any active market, and deposits with cedants. Under some reinsurance contracts, part of the reinsurance premium is retained by cedants as guarantee for payment of future claims, and generally released after one year. These deposits bear contractually agreed interest.

Under IFRS 9, the Group discloses certain information; however, the standard was not applied as at 1 January 2018 as the Group postponed its application (insurance contracts). For more information, see section 17.5, heading “IFRS 9 Financial Instruments”.

### 17.4.15.2 Recognition, measurement and derecognition

Available-for-sale financial assets and held-to-maturity financial assets are initially measured at fair value plus any transaction costs. Financial assets at fair value through profit or loss are initially measured at fair value, with any transaction costs recognised as investment expenses.

Acquisitions and disposals of financial assets, loans and deposits are recognised on the trade date.

Gains and losses arising from fair value revaluation of financial assets available for sale are recognised in the statement of other comprehensive income, and transferred to the income statement upon disposal or impairment. Gains and losses arising from fair value revaluation of financial assets at fair value through profit or loss are recognised directly in the income statement. Held-to-maturity financial assets are measured at amortised cost less any impairment losses.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the assets are transferred and the transfer qualifies for derecognition in accordance with IAS 39.

Loans and receivables (deposits), and held-to-maturity financial assets are measured at amortised cost.

### 17.4.15.3 Determination of fair values

The Group measures all financial instruments at fair value, except for deposits, shares not quoted in any regulated market, loans and subordinated debt (assuming that their carrying amount is a reasonable approximation of their fair value), and financial instruments held to maturity, which are measured at amortised cost. The fair value of investment property and land and buildings used in business operations and the fair value of financial instruments measured at amortised cost are set out in note 27. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group determines the fair value of a financial asset on the valuation date by determining the price on 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.

Assets and liabilities measured or disclosed at fair value in the consolidated financial statements are measured and presented in accordance with the IFRS 13 fair-value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value.

Assets and liabilities are classified in accordance with IFRS 13 especially based on the availability of market information, which is determined by the relative levels of trading identical or similar instruments in the market, with a focus on information that represents actual market activity or binding quotations of brokers or dealers.

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

- Level 1: financial investments 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 whose fair value is determined using data that are directly or indirectly observable other than the prices quoted within level 1.
- Level 3: 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.

The Group discloses and fully complies with its policy of determining when transfers between levels of the fair value hierarchy are deemed to have occurred. Policies for the timing of recognising transfers are the same for transfers into as for transfers out of any level. Examples of policies include: (a) the date of the event or change in circumstances that caused the transfer (b) the beginning of the reporting period (c) at the end of the reporting period.

### 17.4.15.4 Impairment of investments

A financial asset other than at fair value through profit or loss is impaired and an impairment loss incurred provided there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset and that such events have an impact on future cash flows that can be reliably estimated. The Group assesses whether there is any objective evidence that individual financial assets are impaired on a three-month basis (when preparing interim and annual reports).

#### 17.4.15.4.1 Debt securities

Investments in debt securities are impaired if one of the following conditions is met:

- the issuer fails to make a coupon or principal payment, and it is likely that such liabilities will not be settled in the short term;
- the issuer is subject to a bankruptcy, liquidation or compulsory settlement procedure.

If the first condition above is met, an impairment loss is recognised in the income statement in the amount of the difference between the fair value and carrying amount of the debt security (if the carrying amount exceeds the fair value).

If the second condition above is met, an impairment loss is recognised in profit or loss, being the difference between the potential payment out of the bankruptcy or liquidation estate and the cost of the investment. The potential payment out of the bankruptcy or liquidation estate is estimated based on information concerning the bankruptcy, liquidation or compulsory settlement proceedings, or, if such information is not available, based on experience or estimates made by credit rating or other financial institutions.

In respect of debt securities, only impairment losses recognised pursuant to indent one above (first condition) may be reversed. An impairment loss is reversed when the issuer's liability is settled. Impairment losses are reversed through profit or loss.

#### 17.4.15.4.2 Equity securities

Investments in equity securities are impaired if on the statement of financial position date:

- their market price is more than 40% below cost;
- their market price has remained below cost for more than one year;
- the model based on which the Group assesses the need for impairment of unquoted securities indicates that the asset needs to be impaired.

An impairment loss is recognised in the amount of the difference between market price and carrying amount of the financial instruments.

## 17.4.16 Reinsurers' share of technical provisions

The amount of reinsurers' share of technical provisions represents the proportion of gross technical provisions and unearned premiums for transactions that the Group ceded to reinsurers outside the Sava Re Group. Their amount is determined in accordance with reinsurance (retrocession) contracts and in line with movements in the portfolio based on gross technical provisions for the business that is the object of these reinsurance (retrocession) contracts at the close of each accounting period.

The Group tests these assets for impairment on the reporting date. Assets retroceded to counterparties are tested strictly individually. For an estimation of retrocession risks, see section 17.6.3.6 "Retrocession programme – non-life business".

## 17.4.17 Investment contract assets and liabilities

Investment contract assets and liabilities only include the assets and liabilities from investment contracts of the company Sava Pokojninska. Investment contracts assets comprise the assets supporting the liability funds "Moji skladi življenjskega cikla" for the transaction of voluntary supplementary pension business. Investment contract liabilities comprise liabilities arising out of pension insurance business under group and individual plans for voluntary supplementary pension insurance, for which the administrator maintains personal accounts for pension plan members.

Sava Pokojninska initially recognises investment property assets under investment contract assets using the cost model, plus any transaction costs. Subsequent measurements are made using the fair value model. Sava Pokojninska monitors the value of property in local markets where it has investment property assets using indexes (change in value) calculated in-house or in-Group. The data used in such calculations are taken from the latest available report on the Slovenian real property market issued by the Surveying and Mapping Authority of the Republic of Slovenia. If the property price index changes by more than 10% compared to the index of the most recent valuation or that upon initial recognition, the property assets are reappraised. Appraisals are carried out by certified real estate appraisers licensed by the Slovenian Institute of Auditors. Notwithstanding the above sentence, property assets are appraised at least once every three years.

## 17.4.18 Receivables

Receivables mainly include premium receivables due from policyholders or insurers as well as receivables for claims and commissions due from reinsurers.

### 17.4.18.1 Recognition of receivables

Receivables are initially recognised based on issued policies, invoices or other authentic documents (e.g. confirmed reinsurance or co-insurance accounts). In financial statements, receivables are reported in net amounts, i.e. net of any allowances made.

Receivables arising out of reinsurance business are recognised when inwards premiums or claims and commissions relating to retrocession business are invoiced to cedants or reinsurers, respectively. For existing reinsurance contracts for which no confirmed invoices have been received from cedants or reinsurers, receivables are recognised in line with policies outlined in sections 17.4.30 "Net premiums earned" and 17.4.31 "Net claims incurred".

Recourse receivables are recognised as assets only if, on the basis of a recourse claim, an appropriate legal basis exists (a final order of attachment, a written agreement with or payments by the policyholder or debtor, or subrogation for credit risk insurance). Even if subrogation is applicable, recourse receivables are recognised only after the debtor's existence and contactability have been verified. Recognition of principal amounts to which recourse receivables relate decreases claims paid. Group companies recognise impairment losses on recourse receivables based on past experience. Recourse receivables are tested for impairment on a case-by-case basis.

No receivables have been pledged as security.

#### 17.4.18.2 Impairment of receivablesv

The Group classifies receivables into groups with similar credit risk. It assesses receivables in terms of recoverability or impairment, making allowances based on payment history. Individual assessments are carried for all material items of receivables.

In addition to age, the method for accounting for allowances takes into account the phase of the collection procedure, historical data on the percentage of write-offs made and the ratio of recoverability. Assumptions are reviewed at least annually.

### 17.4.19 Deferred acquisition costs

Acquisition costs that are deferred include that part of operating expenses directly associated with policy underwriting.

The Group discloses under deferred acquisition costs, mostly deferred commissions. These are booked commissions relating to the next financial year and are recognised based on (re)insurance accounts and estimated amounts obtained based on estimated commissions taking into account straight-line amortisation.

### 17.4.20 Other assets

Other assets include capitalised short-term deferred costs and short-term accrued income. Short-term deferred costs comprise short-term deferred costs for prepayments of unearned commissions to counterparties.

### 17.4.21 Cash and cash equivalents

Thus, the statement of financial position and cash flow item "cash and cash equivalents" comprises:

- cash, including cash in hand, cash in bank accounts of commercial banks or other financial institutions and overnight deposits, and
- cash equivalents, including demand deposits and deposits with an original maturity of up to three months.

### 17.4.22 Equity

Composition:

- share capital comprises the par value of paid-up ordinary shares, expressed in euro;
- capital reserves comprise amounts in excess of the par value of shares;
- profit reserves comprise reserves provided for by the articles of association, legal reserves, reserves for own shares, catastrophe equalisation reserves and other profit reserves;
- own shares;
- fair value reserve;
- retained earnings;
- net profit/loss for the year;
- translation reserve;
- non-controlling interest.

Reserves provided for by the articles of association are used:

- to cover the net loss that cannot be covered (in full) out of retained earnings and other profit reserves, or if these two sources of funds are insufficient to cover the net loss in full (an instrument of additional protection of tied-up capital);
- to increase share capital;
- to regulate the dividend policy.

Profit reserves also include catastrophe (earthquake) equalisation reserves set aside pursuant to the rules on the calculation of technical provisions and reserves as approved by appointed actuaries. These are tied-up reserves.

Pursuant to the Companies Act, the Company's management board has the power to allocate up to half of the net profit to other reserves.

## 17.4.23 Classification of insurance contracts

The Group transacts traditional and unit-linked life business, non-life business and reinsurance business, the basic purpose of which is the transfer of underwriting risk. Underwriting risk is considered significant, if the occurrence of an insured event would result in significant additional payments. Accordingly, the Group classified all such contracts concluded as insurance contracts. Proportional reinsurance contracts represent an identical risk as the underlying insurance policies, which are insurance contracts. Since non-proportional reinsurance contracts provide for the payment of significant additional payouts in case of loss events, they also qualify as insurance contracts.

As at the end of 2015, the controlling company acquired the Moja Naložba pension company (now Sava Pokojninska). As a result, the Group has assets and liabilities from investment contracts relating to this company.

## 17.4.24 Technical provisions

Technical provisions are shown gross in the statement of financial position among liabilities. The share of technical provisions for the business ceded by the Group to non-Group reinsurers is shown in the statement of financial position under the asset item reinsurers' share of technical provisions. Technical provisions must be set at an amount that provides reasonable assurance that liabilities from assumed (re)insurance contracts can be met. The main principles used in calculations are described below.

**Unearned premiums** are the portions of premiums written pertaining to periods after the accounting period. Unearned premiums are calculated on a pro rata temporis basis at insurance policy level, except for decreasing term contracts (credit life). Since there is generally insufficient data available for inwards reinsurance business on the individual policy level, the fractional value method is used for calculating unearned premiums at the level of individual reinsurance accounts for periods for which premiums are written.

**Mathematical provisions** for life insurance contracts represent the actuarial value of obligations arising from policyholders' guaranteed entitlements. In most cases, they are calculated using the net Zillmer method with the same parameters as those used for premium calculation, except for the discount rate applied, which was a technical interest rate not exceeding 1.5%. Other parameters are the same as those used in the premium calculation. Calculated negative liabilities arising out of mathematical provisions are set to nil. The Zillmer method was used for amortising acquisition costs. The calculation of mathematical provisions is based on the assumption that the full agent commission was paid at conclusion of the contract, while agents actually receive the commission within two to five years depending on the policy term. The mathematical provision includes all deferred commission. The Group sets aside deferred acquisition costs, showing them under assets in the event of commission prepayments, or shows the difference between the positive Zillmerised mathematical provision and the Zillmerised mathematical provision.

**Provisions for outstanding claims** (claims provision) are established in the amount of expected liabilities for incurred but not settled claims, including loss adjustment expenses. These comprise provisions for both reported claims calculated based on case estimates and claims incurred by not reported (IBNR) calculated using actuarial methods. Future liabilities are generally not discounted, with the exception of a part relating to annuities under certain liability insurance contracts. In such cases, the related provisions are established based on the expected net present value of future liabilities.

Provisions for incurred but not reported claims are calculated for the major part of the portfolios of primary insurers using methods based on paid claims triangles; the result is the total claims provision, and IBNR provision is calculated as the difference between the result of the triangle method and the provision based on case reserves. In classes where the volume of business is not large enough for reliable results from the triangle methods, the calculation is made based on either (i) the product of the expected number of subsequently reported claims and the average amount of subsequently reported claims or (ii) methods based on expected loss ratios. The consolidated IBNR provision also includes the IBNR provision for the part of business written outside the Sava Re Group. For this part of the portfolio, technical categories based on reinsurance accounts are not readily available; therefore, it is necessary to estimate items that are received untimely, including claims provisions, taking into account expected premiums and expected combined ratios for each underwriting year, class of business and form of reinsurance as well as development triangles for underwriting years succeeding accounted quarters; The IBNR provision is then established at the amount of the claims provision thus estimated.

The provision for outstanding claims is thus established based on statistical data and using actuarial methods; therefore, its calculation also constitutes a liability adequacy test.

**The provision for bonuses, rebates and cancellations** is intended for agreed and expected pay-outs due to good results of insurance contracts and expected payment due to cancellations in excess of unearned premiums.

**Other technical provisions** solely include the provision for unexpired risks derived from a liability adequacy test of unearned premiums, as described below.

Unearned premiums are deferred premiums based on coverage periods. If based on such a calculation, the premium is deemed to be inadequate, the unearned premium is also inadequate. Group companies carry out liability adequacy tests for unearned premiums at the level of homogeneous groups appropriate to portfolios. The calculation of the expected combined ratio in any homogeneous group is based on premiums earned, claims incurred, commission expenses and other operating expenses. Where the expected combined ratio so calculated exceeds 100%, thus revealing a deficiency in unearned premiums, a corresponding provision for unexpired risks is set aside within other technical provisions.

## 17.4.25 Technical provision for the benefit of life insurance policyholders who bear the investment risk

These are provisions for unit-linked life business. They comprise mathematical provisions, unearned premiums and provisions for outstanding claims. The bulk comprises mathematical provisions. Their value is the aggregate value of all units of funds under all policies, including all premiums not yet converted into units, plus the discretionary bonuses of guaranteed funds managed by us. The value of funds is based on market value as at the statement of financial position date.

## 17.4.26 Liability adequacy test (LAT)

The Group carries out adequacy testing of provisions set aside based on insurance contracts as at the financial statement date separately for non-life and life business. The liability adequacy test for non-life business is described in section 17.4.24 “Technical provisions”.

### Liability adequacy testing for life business

The liability adequacy test for life policies is carried out at a minimum at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses and expenses. For this purpose, the present value of future cash flows is used.

Discounting is based on the yield curve for euro area sovereign bonds at the statement of financial position date, but for EU Member States the risk-free yield curve of government bonds at the statement of financial position date, including a loading for the investment mix. Where reliable market data is available, assumptions (such as discount rate and investment return) are derived from observable market prices. Assumptions that cannot be reliably derived from market values are based on current estimates calculated by reference to the Group’s own internal models (lapse rates, actual mortality and morbidity) and publicly available resources (demographic information published by the local statistical bureau). For mortality, higher rates are anticipated than realised due to uncertainty.

Input assumptions are updated annually based on recent experience. Correlations between risk factors are not taken into account. The principal assumptions used are described below.

The liability adequacy test is performed on the policy or product level. If the test is performed on the policy level, the results are shown on the product-level, with products grouped by class of business. Results of the test are then evaluated for each of the three groups separately. Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining any additional liabilities to be established. The net present value of future cash flows calculated using the assumptions described below is compared with the insurance liabilities, for each group separately. If this comparison shows that the carrying amount of the insurance liabilities is inadequate in the light of the estimated cash flows, the entire deficiency is recognised in profit or loss by establishing an additional provision.

Mortality and morbidity are usually based on data supplied by the local statistical bureau and amended by the Group based on a statistical investigation of its mortality experience. Assumptions for mortality and morbidity are generally adjusted by a margin for risk and uncertainty and are higher than actual.

Future contractual premiums are included and for most business also premium indexation is taken into consideration. Estimates for lapses and surrenders are made based on experience. Actual persistency rates by product type and duration are regularly investigated, and assumptions updated accordingly. The actual persistency rates are generally adjusted by a margin for risk and uncertainty.

Estimates for future maintenance expenses included in the liability adequacy test are derived from current experience. For future periods, cash flows for expenses have been increased by a factor equal to the estimated annual inflation or have remained on the present level, taking into account the portfolio development.

Yield and the discount rate are based on the same yield curve; a loading for market development is added when discounting.

The liability adequacy test partly takes into account future discretionary bonuses due to the method of determining bonuses. The share of discretionary bonuses complies with internal rules and is treated as a discounted liability.

The Group estimated, for most of the life policies, the impact of changes in key variables that may have a material effect on the results of liability adequacy tests at the end of the year. Sensitivity analyses are prepared separately for traditional life business and investment-linked life business.

| (EUR) | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| | LAT test for traditional life policies | LAT test for unit-linked life policies | LAT test for traditional life policies | LAT test for unit-linked life policies |
| Base run | 227,268,071 | 155,847,565 | 250,957,433 | 175,425,847 |
| Return + 100 basis points | 218,648,999 | 153,077,968 | 240,471,344 | 173,613,304 |
| Return - 100 basis points | 239,077,418 | 159,519,833 | 264,443,797 | 178,836,827 |
| Mortality + 10% | 229,951,670 | 157,473,881 | 253,487,108 | 177,445,629 |
| Operating expenses on policy + 10% | 231,349,661 | 159,825,579 | 254,384,583 | 179,078,866 |

The base run is calculated using the same assumptions as for liability adequacy testing. Changes in variables represent reasonable possible changes which, had they occurred, would have led to significant changes in insurance liabilities at the statement of financial position date. The reasonable possible changes represent neither expected changes in variables nor worst case scenarios. A change in key variables would affect the corresponding component of the result in the same proportion.

The analysis has been prepared for a change in variable with all other assumptions remaining unchanged and ignores changes in values of the related assets. Sensitivity was calculated for an unfavourable direction of movement. The income statement and insurance liabilities (as shown in the LAT test) are mostly impacted by changes in the investment return, while unit-linked business is also impacted by changes in operating expenses.

## 17.4.27 Other provisions

Employee benefits include severance pay upon retirement and jubilee benefits. Provisions for employee benefits are the net present value of the Group's future liabilities proportionate to the years of service in the Group (the projected unit credit method). Pursuant to IAS 19 "Employee benefits" came into force in 2013, actuarial gains and losses arising on re-measurement of net liabilities were recognised in other comprehensive income.

These provisions are calculated based on personal data of employees: date of birth, date of commencement of employment in the Group, anticipated retirement, and salary. For each Group company, the amounts of severance pay upon retirement and jubilee benefit are in accordance with local legislations, employment contracts and other applicable regulations. Expected payouts also include tax liabilities where payments exceed statutory non-taxable amounts.

The probability of an employee staying with the Group includes both the probability of death and the probability of employment relationship termination. Assumptions relating to future increases in salaries, severance pay upon retirement and jubilee benefits, as well as those relating to employee turnover depend on developments in individual markets and individual Group companies. The same term structure of risk-free interest rates is used for discounting as in the capital adequacy calculation under the Solvency II regime.

## 17.4.28 Other financial liabilities

Other financial liabilities mainly include dividend payment obligations relating to previous years.

## 17.4.29 Liabilities from operating activities and other liabilities

Liabilities are initially recognised at amounts recorded in the relevant documents. Subsequently, they are increased or decreased in line with documents or decreased through payments. Other liabilities comprise: liabilities for claims and outwards retrocession premiums, liabilities for claims arising out of inwards reinsurance contracts, liabilities for retained deposits, current income tax liabilities, amounts due to employees, amounts due to clients and other short-term liabilities.

As of 1 January 2019, the Group will also include lease liabilities in the other liabilities item.

## 17.4.30 Net premiums earned

Premiums earned are accounted for on an accrual basis, taking into account any increase in economic benefits in the form of higher cash inflows or assets. The following are disclosed separately: gross (re)insurance premiums, co-insurance and retrocession premiums, and unearned premiums. These items are used to calculate net premiums written in the income statement. Revenues are recognised based on confirmed (re)insurance accounts or (re)insurance contracts.

Estimates are made on the basis of amounts in reinsurance contracts, which, according to contractual due dates, have already accrued although the Group has yet to receive reinsurance accounts. Net premiums earned are calculated based on invoiced gross reinsurance premiums less invoiced premiums retroceded, both adjusted for the movement in gross unearned premiums and the change in reinsurers' share of unearned premiums. Premiums earned are estimated based on individual reinsurance contracts.

## 17.4.31 Net claims incurred

Claims and benefits incurred are accounted for on an accrual basis, taking into account any decrease in economic benefits in the form of cash outflows or decreases in assets. Net claims incurred comprise gross claims paid net of recourse receivables and reinsured claims, i.e. amounts invoiced to retrocessionaires. The amount of gross claims paid includes the change in the claims provision, taking into account estimated claims and provisions for outstanding claims. Estimates are made on the basis of amounts in reinsurance contracts, which, according to contractual due dates, have already accrued although the Group has yet to receive reinsurance accounts. Claims incurred are estimated based on estimated premiums and combined ratios for individual reinsurance contracts. These items are used to calculate net claims incurred in the income statement.

## 17.4.32 Investment income and expenses

The Group records investment income and expenses separately by source of funds, maintaining three separate registers: the non-life insurance investment register, the life insurance investment register and own funds investment register. Own fund investments support the Group's shareholders' funds; non-life insurance investments support technical provisions, and life insurance investments support mathematical provisions.

Investment income includes:

- dividend income (income from shares);
- interest income;
- exchange gains;
- income from changes in fair value and gains on disposal of investments designated at fair value through profit or loss;
- gains on disposal of investments of other investment categories and
- other income.

Investment expenses include:

- interest expense;
- exchange losses;
- expenses due to changes in fair value and losses on disposal of investments designated at fair value through profit or loss;
- losses on disposal of investments of other investment categories; and
- other expenses.

The above income and expenses are shown depending on how the underlying investments are classified, i.e. investments held to maturity, at fair value through profit or loss, available for sale, loans and receivables, or deposits.

Interest income and expenses for investments classified as held to maturity or available for sale are recognised in the income statement using the effective interest rate method. Interest income and expenses for investments at fair value through profit or loss are recognised in the income statement using the coupon interest rate. Dividend income is recognised in the income statement when payout is authorised. Gains and losses on the disposal of investments represent the difference between the carrying amount of a financial asset and its sale price, or between its cost less impairment, if any, and sale price in the case of investments available for sale.

### 17.4.33 Operating expenses

Operating expenses comprise:

- acquisition costs;
- change in deferred acquisition costs;
- other operating expenses classified by nature, as follows:
  a. depreciation/amortisation of operating assets,
  b. personnel costs including employee salaries, social and pension insurance costs and other personnel costs,
  c. remuneration of the supervisory board and audit committee; and payments under contracts for services,
  d. other operating expenses relating to services and materials.

### 17.4.34 Other technical income

Other technical income comprises income from reinsurance commissions less the change in deferred acquisition costs relating to reinsurers, and is recognised based on confirmed reinsurance accounts and estimated commission income taking into account straight-line amortisation.

### 17.4.35 Income tax expense

Income tax expense for the year comprises current and deferred tax. Current income tax is presented in the income statement, except for the portion relating to the items presented in equity. The same applies to deferred tax. Current tax is payable on the taxable profit for the year using the tax rates enacted by the date of the statement of financial position, as well as on any adjustments to tax liabilities of prior periods. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax amount is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using the tax rates that have been enacted by the date of the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group income tax expense has been determined in accordance with the requirements of each member's local legislation. Statutory tax rates in various countries are between 9 and 19%.

### 17.4.36 Segment reporting

Operating segments as disclosed and monitored were determined based on the different activities carried out in the Group. Segments have been formed based on similar services provided by companies (features of insurance products, market networks and the environment in which companies operate).

Operating segments include reinsurance business, non-life insurance business, life insurance business, pensions and the "other" segment. Performance of these segments is monitored based on different indicators, a common performance indicator for all segments being net profit calculated in accordance with IFRSs. The management board monitors performance by segment to the level of underwriting results, net investment income and other aggregated performance indicators, as well as the amounts of assets, equity and technical provisions on a quarterly basis.

## Asset items by operating segment as at 31 December 2018

| 31/12/2018 | Reinsurance business | Non-life business | | | Life business | | | Pensions | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Slovenia | International | Total | Slovenia | International | Total | | | |
| **ASSETS** | **274,837,456** | **565,031,397** | **131,712,828** | **696,744,225** | **526,967,567** | **29,122,751** | **556,090,318** | **173,344,750** | **4,930,514** | **1,705,947,263** |
| **Intangible assets** | **892,724** | **5,371,378** | **8,657,541** | **14,028,919** | **5,993,196** | **29,781** | **6,022,977** | **13,388,822** | **2,787,676** | **37,121,118** |
| **Property, plant and equipment** | **2,654,540** | **22,010,348** | **13,873,614** | **35,883,962** | **1,985,583** | **2,143,756** | **4,129,339** | **101,027** | **124,564** | **42,893,432** |
| **Deferred tax assets** | **1,867,370** | **9,888** | **72,546** | **82,434** | **0** | **441** | **441** | **0** | **0** | **1,950,245** |
| **Investment property** | **9,394,533** | **6,411,948** | **4,796,930** | **11,208,878** | **39,608** | **0** | **39,608** | **0** | **0** | **20,643,019** |
| **Financial investments:** | **162,310,851** | **425,673,545** | **80,589,909** | **506,263,454** | **291,963,448** | **24,732,979** | **316,696,427** | **22,826,738** | **0** | **1,008,097,470** |
| - loans and deposits | 5,085,869 | 2,825,837 | 18,505,069 | 21,330,906 | 6,846 | 1,679,795 | 1,686,641 | 5,438,931 | 0 | 33,542,347 |
| - held to maturity | 1,393,386 | 35,320,569 | 3,496,063 | 38,816,632 | 30,578,107 | 2,083,460 | 32,661,566 | 4,250,452 | 0 | 77,122,037 |
| - available for sale | 153,175,040 | 382,444,839 | 58,516,033 | 440,960,871 | 261,374,919 | 20,675,814 | 282,050,733 | 8,830,765 | 0 | 885,017,410 |
| - at fair value through profit or loss | 2,656,556 | 5,082,301 | 72,744 | 5,155,045 | 3,576 | 293,909 | 297,485 | 4,306,590 | 0 | 12,415,676 |
| **Funds for the benefit of policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **204,770,733** | **47,771** | **204,818,504** | **0** | **0** | **204,818,504** |
| **Reinsurers' share of technical provisions** | **9,019,966** | **14,221,663** | **3,899,277** | **18,120,940** | **144,924** | **6,920** | **151,844** | **0** | **0** | **27,292,750** |
| **Investment contract assets** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **135,586,965** | **0** | **135,586,965** |
| **Receivables** | **72,109,652** | **54,259,509** | **11,686,954** | **65,946,463** | **837,085** | **652,454** | **1,489,539** | **13,709** | **990,648** | **140,550,011** |
| Receivables arising out of primary insurance business | 66,964,340 | 50,911,801 | 7,319,653 | 58,231,454 | 745,978 | 580,804 | 1,326,782 | 11,185 | 0 | 126,533,761 |
| Receivables arising out of reinsurance and co-insurance business | 4,842,279 | 577,109 | 411,881 | 988,990 | 0 | 4,529 | 4,529 | 0 | 0 | 5,835,798 |
| Current tax assets | 14,488 | 33,806 | 121,433 | 155,239 | 0 | 0 | 0 | 0 | 0 | 169,727 |
| Other receivables | 288,545 | 2,736,793 | 3,833,987 | 6,570,780 | 91,107 | 67,121 | 158,228 | 2,524 | 990,648 | 8,010,725 |
| **Deferred acquisition costs** | **5,543,138** | **10,021,798** | **3,739,550** | **13,761,348** | **431,932** | **22,816** | **454,748** | **0** | **0** | **19,759,234** |
| **Other assets** | **380,021** | **920,495** | **387,060** | **1,307,555** | **900** | **22,223** | **23,123** | **287,849** | **65,672** | **2,064,220** |
| **Cash and cash equivalents** | **10,664,660** | **26,080,935** | **4,009,448** | **30,090,383** | **20,800,158** | **1,463,610** | **22,263,768** | **1,139,640** | **498,980** | **64,657,431** |
| **Non-current assets held for sale** | **0** | **49,890** | **0** | **49,890** | **0** | **0** | **0** | **0** | **0** | **49,890** |

## Equity and liability items by operating segment as at 31 December 2018

| 31/12/2018 | Reinsurance business | Non-life business | | | Life business | | | Pensions | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Slovenia | International | Total | Slovenia | International | Total | | | |
| **LIABILITIES** | **349,227,765** | **515,265,333** | **123,367,424** | **638,632,758** | **508,045,117** | **30,376,834** | **538,421,953** | **174,699,787** | **4,965,003** | **1,705,947,263** |
| **Equity** | **153,206,458** | **64,183,650** | **38,017,218** | **102,200,868** | **39,847,893** | **11,281,453** | **51,129,346** | **30,251,271** | **3,387,513** | **340,175,455** |
| **Equity attributable to owners of the controlling company** | **153,206,458** | **64,183,650** | **37,665,813** | **101,849,463** | **39,847,893** | **11,281,453** | **51,129,346** | **30,251,271** | **3,189,301** | **339,625,838** |
| **Non-controlling interest in equity** | **0** | **0** | **351,405** | **351,405** | **0** | **0** | **0** | **0** | **198,212** | **549,617** |
| **Technical provisions** | **156,779,256** | **416,360,199** | **75,985,712** | **492,345,911** | **245,113,488** | **18,107,217** | **263,220,705** | **8,145,615** | **0** | **920,491,487** |
| Unearned premiums | 25,023,103 | 127,408,821 | 30,627,563 | 158,036,384 | 742,616 | 299,732 | 1,042,348 | 0 | 0 | 184,101,835 |
| Mathematical provisions | 0 | 0 | 0 | 0 | 229,055,266 | 17,648,485 | 246,703,751 | 8,145,615 | 0 | 254,849,366 |
| Provision for outstanding claims | 131,117,879 | 279,281,319 | 44,183,757 | 323,465,076 | 15,315,606 | 159,000 | 15,474,606 | 0 | 0 | 470,057,561 |
| Other technical provisions | 638,274 | 9,670,059 | 1,174,392 | 10,844,451 | 0 | 0 | 0 | 0 | 0 | 11,482,725 |
| **Technical provision for the benefit of life insurance policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **209,984,866** | **47,771** | **210,032,637** | **0** | **0** | **210,032,637** |
| **Other provisions** | **376,521** | **5,348,757** | **738,365** | **6,087,122** | **1,081,458** | **2,695** | **1,084,153** | **140,451** | **42,000** | **7,730,247** |
| **Deferred tax liabilities** | **0** | **1,635,238** | **234,300** | **1,869,538** | **1,594,732** | **38,398** | **1,633,130** | **26,567** | **0** | **3,529,235** |
| **Investment contract liabilities** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **135,441,508** | **0** | **135,441,508** |
| **Other financial liabilities** | **87,506** | **-1** | **155,154** | **155,153** | **0** | **436** | **436** | **0** | **0** | **243,095** |
| **Liabilities from operating activities** | **35,618,804** | **6,439,968** | **3,934,306** | **10,374,274** | **8,256,894** | **268,718** | **8,525,612** | **34,160** | **183,751** | **54,736,601** |
| Liabilities from primary insurance business | 30,472,253 | 4,465,905 | 1,037,780 | 5,503,685 | 8,102,962 | 199,614 | 8,302,576 | 0 | 0 | 44,278,514 |
| Liabilities from reinsurance and co-insurance business | 3,149,394 | 594,814 | 2,417,287 | 3,012,101 | 1,790 | 12,747 | 14,537 | 0 | 0 | 6,176,032 |
| Current income tax liabilities | 1,997,157 | 1,379,249 | 479,239 | 1,858,488 | 152,142 | 56,357 | 208,499 | 34,160 | 183,751 | 4,282,055 |
| **Other liabilities** | **3,159,218** | **21,297,522** | **4,302,370** | **25,599,892** | **2,165,788** | **630,146** | **2,795,934** | **660,215** | **1,351,739** | **33,566,998** |

## Asset items by operating segment at 31 December 2017

| 31/12/2017 | Reinsurance business | Non-life business | | | Life business | | | Pensions | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Slovenia | International | Total | Slovenia | International | Total | | | |
| **ASSETS** | **276,345,977** | **562,701,741** | **121,679,095** | **684,380,835** | **573,410,626** | **29,285,789** | **602,696,415** | **144,924,839** | **0** | **1,708,348,067** |
| **Intangible assets** | **807,011** | **5,930,640** | **8,669,940** | **14,600,580** | **7,213,397** | **38,444** | **7,251,841** | **53,512** | **0** | **22,712,944** |
| **Property, plant and equipment** | **2,485,645** | **25,240,112** | **13,318,247** | **38,558,359** | **2,116,782** | **2,197,557** | **4,314,339** | **79,671** | **0** | **45,438,014** |
| **Deferred tax assets** | **1,238,826** | **534,480** | **95,467** | **629,947** | **238,446** | **345** | **238,791** | **0** | **0** | **2,107,564** |
| **Investment property** | **8,230,878** | **3,066,546** | **4,025,810** | **7,092,356** | **40,950** | **0** | **40,950** | **0** | **0** | **15,364,184** |
| **Financial investments:** | **165,273,295** | **440,447,032** | **71,613,992** | **512,061,024** | **323,574,108** | **24,275,764** | **347,849,873** | **12,940,827** | **0** | **1,038,125,019** |
| - loans and deposits | 5,526,052 | 3,019,310 | 15,223,594 | 18,242,904 | 7,439 | 4,243,147 | 4,250,586 | 10,001 | 0 | 28,029,543 |
| - held to maturity | 1,393,175 | 40,298,157 | 3,656,201 | 43,954,358 | 55,863,681 | 2,882,172 | 58,745,853 | 2,138,941 | 0 | 106,232,327 |
| - available for sale | 158,079,091 | 397,002,654 | 52,723,889 | 449,726,543 | 266,912,104 | 16,837,430 | 283,749,534 | 6,090,111 | 0 | 897,645,279 |
| - at fair value through profit or loss | 274,977 | 126,911 | 10,308 | 137,220 | 790,884 | 313,015 | 1,103,900 | 4,701,774 | 0 | 6,217,870 |
| **Funds for the benefit of policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **227,172,652** | **55,401** | **227,228,053** | **0** | **0** | **227,228,053** |
| **Reinsurers' share of technical provisions** | **9,744,947** | **16,212,812** | **4,626,944** | **20,839,757** | **198,672** | **3,866** | **202,538** | **0** | **0** | **30,787,241** |
| **Investment contract assets** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **129,622,131** | **0** | **129,622,131** |
| **Receivables** | **74,851,935** | **47,924,024** | **12,954,338** | **60,878,362** | **856,334** | **1,867,321** | **2,723,655** | **1,573** | **0** | **138,455,525** |
| Receivables arising out of primary insurance business | 71,773,739 | 45,187,064 | 6,451,723 | 51,638,787 | 741,601 | 170,420 | 912,021 | 0 | 0 | 124,324,547 |
| Receivables arising out of reinsurance and co-insurance business | 2,906,051 | 567,453 | 2,721,346 | 3,288,799 | 0 | 2,867 | 2,867 | 0 | 0 | 6,197,717 |
| Current tax assets | 0 | 0 | 17,822 | 17,822 | 0 | 0 | 0 | 0 | 0 | 17,822 |
| Other receivables | 172,145 | 2,169,507 | 3,763,447 | 5,932,954 | 114,733 | 1,694,034 | 1,808,767 | 1,573 | 0 | 7,915,439 |
| **Deferred acquisition costs** | **6,235,348** | **8,743,590** | **3,214,513** | **11,958,103** | **311,809** | **1,933** | **313,742** | **0** | **0** | **18,507,194** |
| **Other assets** | **799,634** | **880,008** | **324,817** | **1,204,825** | **1,391** | **30,286** | **31,677** | **7,259** | **0** | **2,043,395** |
| **Cash and cash equivalents** | **6,678,458** | **13,721,812** | **2,835,026** | **16,556,838** | **11,686,085** | **814,872** | **12,500,957** | **2,219,866** | **0** | **37,956,119** |
| **Non-current assets held for sale** | **0** | **684** | **0** | **684** | **0** | **0** | **0** | **0** | **0** | **684** |

## Equity and liability items by operating segment as at 31 December 2017

| 31/12/2017 | Reinsurance business | Non-life business | | | Life business | | | Pensions | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Slovenia | International | Total | Slovenia | International | Total | | | |
| **LIABILITIES** | **345,352,373** | **515,078,617** | **120,152,010** | **635,230,627** | **554,636,153** | **27,411,026** | **582,047,178** | **145,717,890** | **0** | **1,708,348,067** |
| **Equity** | **143,382,173** | **67,041,741** | **37,684,149** | **104,725,890** | **47,700,274** | **11,099,491** | **58,799,765** | **9,209,069** | **0** | **316,116,895** |
| **Equity attributable to owners of the controlling company** | **143,382,173** | **67,041,741** | **37,365,667** | **104,407,408** | **47,700,274** | **11,099,491** | **58,799,765** | **9,209,069** | **0** | **315,798,413** |
| **Non-controlling interest in equity** | **0** | **0** | **318,482** | **318,482** | **0** | **0** | **0** | **0** | **0** | **318,482** |
| **Technical provisions** | **155,981,500** | **413,731,878** | **73,020,045** | **486,751,923** | **266,379,368** | **15,729,853** | **282,109,221** | **6,555,718** | **0** | **931,398,362** |
| Unearned premiums | 27,784,980 | 115,284,582 | 27,763,773 | 143,048,355 | 794,499 | 229,425 | 1,023,924 | 0 | 0 | 171,857,259 |
| Mathematical provisions | 0 | 0 | 0 | 0 | 249,604,958 | 15,249,239 | 264,854,197 | 6,555,718 | 0 | 271,409,915 |
| Provision for outstanding claims | 127,827,170 | 290,994,868 | 44,020,475 | 335,015,343 | 15,979,911 | 250,158 | 16,230,069 | 0 | 0 | 479,072,582 |
| Other technical provisions | 369,350 | 7,452,428 | 1,235,797 | 8,688,225 | 0 | 1,031 | 1,031 | 0 | 0 | 9,058,606 |
| **Technical provision for the benefit of life insurance policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **226,472,492** | **55,401** | **226,527,893** | **0** | **0** | **226,527,893** |
| **Other provisions** | **351,250** | **5,356,300** | **664,997** | **6,021,297** | **1,154,362** | **31,137** | **1,185,499** | **42,567** | **0** | **7,600,613** |
| **Deferred tax liabilities** | **0** | **2,674,519** | **257,798** | **2,932,317** | **2,799,681** | **49,496** | **2,849,177** | **0** | **0** | **5,781,494** |
| **Investment contract liabilities** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **129,483,034** | **0** | **129,483,034** |
| **Other financial liabilities** | **91,181** | **0** | **154,023** | **154,023** | **1** | **0** | **1** | **0** | **0** | **245,205** |
| **Liabilities from operating activities** | **43,115,652** | **5,423,252** | **4,101,107** | **9,524,359** | **7,683,212** | **274,965** | **7,958,177** | **0** | **0** | **60,598,188** |
| Liabilities from primary insurance business | 39,870,845 | 4,204,601 | 2,989,748 | 7,194,349 | 7,464,498 | 181,597 | 7,646,095 | 0 | 0 | 54,711,289 |
| Liabilities from reinsurance and co-insurance business | 3,090,008 | 1,218,651 | 845,443 | 2,064,094 | 1,308 | 4,773 | 6,081 | 0 | 0 | 5,160,183 |
| Current income tax liabilities | 154,799 | 0 | 265,916 | 265,916 | 217,406 | 88,595 | 306,001 | 0 | 0 | 726,716 |
| **Other liabilities** | **2,430,618** | **20,850,927** | **4,269,891** | **25,120,818** | **2,446,762** | **170,683** | **2,617,445** | **427,502** | **0** | **30,596,383** |

## Income statement items by operating segment 2018

| (EUR) 2018 | Reinsurance | Non-life | | | Life | | | Pensions | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Slovenia | International | Total | Slovenia | International | Total | | | |
| **Net earned premiums** | **88,342,760** | **266,087,185** | **61,540,814** | **327,627,998** | **78,235,117** | **8,244,783** | **86,479,900** | **2,219,043** | **0** | **504,669,701** |
| Gross premiums written | 89,317,441 | 299,788,809 | 68,122,098 | 367,910,907 | 78,512,481 | 8,339,667 | 86,852,148 | 2,219,043 | 0 | 546,299,539 |
| Written premiums ceded to reinsurers and co-insurers | -3,773,119 | -18,373,447 | -4,437,049 | -22,810,497 | -338,523 | -20,714 | -359,237 | 0 | 0 | -26,942,852 |
| Change in gross unearned premiums | 2,761,879 | -11,969,069 | -2,200,503 | -14,169,572 | 62,048 | -70,050 | -8,002 | 0 | 0 | -11,415,695 |
| Change in unearned premiums, reinsurers' and co-insurers' shares | 36,559 | -3,359,108 | 56,268 | -3,302,840 | -889 | -4,120 | -5,009 | 0 | 0 | -3,271,291 |
| **Investment income** | **9,314,271** | **6,643,714** | **2,639,957** | **9,283,671** | **6,662,342** | **920,515** | **7,582,857** | **621,363** | **0** | **26,802,161** |
| Interest income | 2,361,871 | 4,747,360 | 2,253,758 | 7,001,118 | 5,864,014 | 779,269 | 6,643,283 | 452,914 | 0 | 16,459,186 |
| Other investment income | 6,952,400 | 1,896,354 | 386,199 | 2,282,552 | 798,328 | 141,246 | 939,574 | 168,449 | 0 | 10,342,975 |
| **Net unrealised gains on investments of life insurance policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **16,866,684** | **640** | **16,867,324** | **0** | **0** | **16,867,324** |
| **Other technical income** | **6,474,011** | **9,308,109** | **2,448,055** | **11,756,164** | **1,348,282** | **103,491** | **1,451,773** | **1,556,410** | **0** | **21,238,357** |
| Commission income | 365,777 | 2,565,704 | 645,584 | 3,211,288 | 52,942 | 4,676 | 57,618 | 0 | 0 | 3,634,682 |
| Other technical income | 6,108,234 | 6,742,405 | 1,802,471 | 8,544,876 | 1,295,340 | 98,815 | 1,394,155 | 1,556,410 | 0 | 17,603,675 |
| **Other income** | **694,824** | **2,522,851** | **1,977,784** | **4,500,635** | **585,618** | **25,971** | **611,589** | **2,723,251** | **6,019,377** | **14,549,676** |
| **Net claims incurred** | **-53,742,449** | **-150,490,839** | **-30,088,710** | **-180,579,550** | **-83,103,556** | **-2,632,260** | **-85,735,816** | **-702,771** | **0** | **-320,760,586** |
| Gross claims payments less income from recourse receivables | -51,397,784 | -172,411,609 | -31,334,317 | -203,745,926 | -83,983,307 | -2,726,730 | -86,710,037 | -702,771 | 0 | -342,556,518 |
| Reinsurers' and co-insurers' shares | 1,707,583 | 8,994,203 | 1,672,411 | 10,666,613 | 79,246 | 6,676 | 85,922 | 0 | 0 | 12,460,118 |
| Change in the gross claims provision | -3,290,709 | 11,811,941 | 449,760 | 12,261,701 | 853,363 | 89,162 | 942,525 | 0 | 0 | 9,913,517 |
| Change in the provision for outstanding claims, reinsurers' and co-insurers' shares | -761,539 | 1,114,626 | -876,563 | 238,062 | -52,859 | -1,368 | -54,227 | 0 | 0 | -577,703 |
| **Change in other technical provisions** | **-268,920** | **-2,546,120** | **198,753** | **-2,347,367** | **19,780,293** | **-2,366,525** | **17,413,768** | **-1,589,897** | **0** | **13,207,584** |
| **Change in technical provisions for policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **15,954,842** | **7,838** | **15,962,680** | **0** | **0** | **15,962,680** |
| **Expenses for bonuses and rebates** | **0** | **342,226** | **-53,598** | **288,628** | **0** | **0** | **0** | **0** | **0** | **288,628** |
| **Operating expenses** | **-26,224,095** | **-88,455,052** | **-31,335,103** | **-119,790,155** | **-20,313,406** | **-3,835,152** | **-24,148,558** | **-2,674,077** | **-5,294,551** | **-178,131,437** |
| Acquisition costs | -21,237,494 | -25,393,684 | -4,838,962 | -30,232,646 | -6,254,532 | -628,434 | -6,882,966 | -19,403 | 0 | -58,372,509 |
| Change in deferred acquisition costs | -652,725 | 1,235,211 | 535,818 | 1,771,029 | 459,339 | 20,893 | 480,232 | 0 | 0 | 1,598,536 |
| Other operating expenses | -4,333,876 | -64,296,579 | -27,031,959 | -91,328,538 | -14,518,213 | -3,227,611 | -17,745,824 | -2,654,674 | -5,294,551 | -121,357,464 |
| **Expenses relating to investments in related parties** | **0** | **0** | **-94,906** | **-94,906** | **0** | **0** | **0** | **0** | **-56,224** | **-151,130** |
| Impairment loss on goodwill | 0 | 0 | -94,906 | -94,906 | 0 | 0 | 0 | 0 | 0 | -94,906 |
| Loss arising out of investments in equity-accounted associate companies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -56,224 | -56,224 |
| **Expenses for financial assets and liabilities** | **-8,383,525** | **-372,972** | **-199,664** | **-572,636** | **-55,252** | **-281,473** | **-336,726** | **-304,976** | **-6,588** | **-9,604,451** |
| Impairment losses on financial assets not at fair value through profit or loss | -1,943,974 | 0 | 0 | 0 | 0 | 0 | 0 | -1 | 0 | -1,943,975 |
| Interest expense | 0 | 0 | -21,856 | -21,856 | 0 | 0 | 0 | -1 | -6,588 | -28,445 |
| Other investment expenses | -6,439,551 | -372,972 | -177,808 | -550,780 | -55,252 | -281,473 | -336,726 | -304,974 | 0 | -7,632,031 |
| **Net unrealised losses on investments of life insurance policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **-23,496,866** | **-1,379** | **-23,498,245** | **0** | **0** | **-23,498,245** |
| **Other technical expenses** | **-5,662,287** | **-12,914,116** | **-4,014,377** | **-16,928,493** | **-139,787** | **-133,165** | **-272,952** | **-437,380** | **-4,717** | **-23,305,829** |
| **Other expenses** | **-727,366** | **-1,649,310** | **-473,934** | **-2,123,244** | **-13,147** | **-8,772** | **-21,919** | **-522** | **-810** | **-2,873,861** |
| **Profit or loss before tax** | **9,817,222** | **28,475,676** | **2,545,070** | **31,020,745** | **12,311,162** | **44,511** | **12,355,673** | **1,410,444** | **656,487** | **55,260,572** |
| Income tax expense | | | | | | | | | | -12,248,723 |
| **Net profit or loss for the period** | | | | | | | | | | **43,011,849** |
| **Net profit or loss attributable to owners of the controlling company** | | | | | | | | | | **42,790,617** |
| **Net profit/loss attributable to non-controlling interest** | | | | | | | | | | **221,232** |

## Income statement items by operating segment 2017

| (EUR) 2017 | Reinsurance | Non-life | | | Life | | | Pensions | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Slovenia | International | Total | Slovenia | International | Total | | | |
| **Net earned premiums** | **90,753,434** | **236,000,817** | **54,301,567** | **290,302,385** | **80,635,888** | **7,055,555** | **87,691,443** | **2,118,731** | **0** | **470,865,993** |
| Gross premiums written | 96,220,818 | 270,369,068 | 60,562,023 | 330,931,091 | 80,880,631 | 7,082,160 | 87,962,791 | 2,118,731 | 0 | 517,233,431 |
| Written premiums ceded to reinsurers and co-insurers | -3,714,207 | -25,926,840 | -4,230,470 | -30,157,310 | -353,350 | -18,429 | -371,779 | 0 | 0 | -34,243,296 |
| Change in gross unearned premiums | -1,943,238 | -9,392,092 | -2,528,441 | -11,920,533 | 104,333 | -6,327 | 98,006 | 0 | 0 | -13,765,765 |
| Change in unearned premiums, reinsurers' and co-insurers' shares | 190,062 | 950,681 | 498,455 | 1,449,136 | 4,274 | -1,849 | 2,425 | 0 | 0 | 1,641,623 |
| **Investment income** | **7,695,545** | **7,370,825** | **2,480,304** | **9,851,129** | **8,318,995** | **905,393** | **9,224,388** | **675,853** | **0** | **27,446,915** |
| Interest income | 2,571,015 | 5,542,395 | 2,231,802 | 7,774,197 | 7,236,115 | 637,112 | 7,873,227 | 388,888 | 0 | 18,607,327 |
| Other investment income | 5,124,530 | 1,828,431 | 248,502 | 2,076,932 | 1,082,880 | 268,281 | 1,351,161 | 286,965 | 0 | 8,839,588 |
| **Net unrealised gains on investments of life insurance policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **16,847,828** | **1,556** | **16,849,384** | **0** | **0** | **16,849,384** |
| **Other technical income** | **4,453,087** | **5,720,526** | **2,155,808** | **7,876,334** | **1,474,032** | **162,540** | **1,636,572** | **1,463,728** | **0** | **15,429,720** |
| Commission income | 300,852 | 2,011,692 | 511,827 | 2,523,519 | 43,297 | 3,201 | 46,498 | 0 | 0 | 2,870,868 |
| Other technical income | 4,152,235 | 3,708,834 | 1,643,981 | 5,352,815 | 1,430,735 | 159,339 | 1,590,074 | 1,463,728 | 0 | 12,558,852 |
| **Other income** | **432,595** | **2,876,338** | **1,832,900** | **4,709,238** | **705,311** | **199,517** | **904,828** | **11,339** | **0** | **6,058,000** |
| **Net claims incurred** | **-56,062,407** | **-142,748,185** | **-25,097,330** | **-167,845,514** | **-70,006,181** | **-1,737,308** | **-71,743,489** | **-451,910** | **0** | **-296,103,320** |
| Gross claims payments less income from recourse receivables | -54,159,750 | -154,626,111 | -28,382,817 | -183,008,928 | -70,327,201 | -1,779,371 | -72,106,572 | -451,910 | 0 | -309,727,160 |
| Reinsurers' and co-insurers' shares | 651,588 | 11,351,915 | 3,733,232 | 15,085,148 | 108,075 | 1,717 | 109,792 | 0 | 0 | 15,846,528 |
| Change in the gross claims provision | -1,813,688 | -1,833,872 | 443,993 | -1,389,879 | 231,170 | 40,437 | 271,607 | 0 | 0 | -2,931,960 |
| Change in the provision for outstanding claims, reinsurers' and co-insurers' shares | -740,557 | 2,359,883 | -891,738 | 1,468,145 | -18,225 | -91 | -18,316 | 0 | 0 | 709,272 |
| **Change in other technical provisions** | **-158,608** | **424,865** | **-616,903** | **-192,038** | **2,796,216** | **-2,723,402** | **72,814** | **-1,902,017** | **0** | **-2,179,849** |
| **Change in technical provisions for policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **-1,108,638** | **-12,689** | **-1,121,327** | **0** | **0** | **-1,121,327** |
| **Expenses for bonuses and rebates** | **0** | **56,333** | **-50,485** | **5,848** | **0** | **0** | **0** | **0** | **0** | **5,848** |
| **Operating expenses** | **-24,072,970** | **-80,355,535** | **-28,213,300** | **-108,568,835** | **-19,485,280** | **-3,451,783** | **-22,937,063** | **-1,383,460** | **0** | **-156,962,328** |
| Acquisition costs | -21,175,815 | -21,105,811 | -3,378,978 | -24,484,789 | -5,741,721 | -515,632 | -6,257,353 | -31,170 | 0 | -51,949,127 |
| Change in deferred acquisition costs | 1,203,450 | -149,891 | 827,797 | 677,906 | 507,669 | -23 | 507,646 | 0 | 0 | 2,389,002 |
| Other operating expenses | -4,100,605 | -59,099,833 | -25,662,119 | -84,761,952 | -14,251,228 | -2,936,128 | -17,187,356 | -1,352,290 | 0 | -107,402,203 |
| **Expenses for financial assets and liabilities** | **-10,379,159** | **-431,696** | **-278,973** | **-710,670** | **-161,880** | **-505,102** | **-666,983** | **-134,733** | **0** | **-11,891,544** |
| Impairment losses on financial assets not at fair value through profit or loss | -215,401 | -99,425 | -4,883 | -104,308 | -269 | -21 | -291 | 0 | 0 | -320,000 |
| Interest expense | -718,338 | 0 | -522 | -522 | 0 | 0 | 0 | 0 | 0 | -718,860 |
| Other investment expenses | -9,445,420 | -332,271 | -273,568 | -605,839 | -161,611 | -505,081 | -666,692 | -134,733 | 0 | -10,852,684 |
| **Net unrealised losses on investments of life insurance policyholders who bear the investment risk** | **0** | **0** | **0** | **0** | **-8,255,710** | **-706** | **-8,256,416** | **0** | **0** | **-8,256,416** |
| **Other technical expenses** | **-5,974,862** | **-6,606,152** | **-4,197,306** | **-10,803,458** | **-228,340** | **-441,445** | **-669,785** | **-37,975** | **0** | **-17,486,080** |
| **Other expenses** | **-234,824** | **-1,238,960** | **-1,174,186** | **-2,413,146** | **-103,545** | **-22,498** | **-126,043** | **-1** | **0** | **-2,774,013** |
| **Profit or loss before tax** | **6,451,832** | **21,069,176** | **1,142,096** | **22,211,272** | **11,428,695** | **-570,372** | **10,858,323** | **359,555** | **0** | **39,880,983** |
| Income tax expense | | | | | | | | | | -8,786,075 |
| **Net profit or loss for the period** | | | | | | | | | | **31,094,908** |
| **Net profit or loss attributable to owners of the controlling company** | | | | | | | | | | **31,065,329** |
| **Net profit or loss attributable to non-controlling interest** | | | | | | | | | | **29,579** |

### Inter-segment business – inter-segment consolidation eliminations

| (EUR) | Reinsurance business | | Non-life business | | Life business | | Pensions | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net earned premiums | 62,318,775 | 56,998,934 | 148,129 | 155,695 | 1,734 | 0 | 0 | 0 | 0 | 0 |
| Net claims incurred | -31,289,893 | -29,365,699 | -3,553,752 | -63,437 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating expenses | -13,074,621 | -12,428,628 | -1,444,069 | -988,468 | -914,597 | -785,715 | -47,812 | -4,509 | -161,666 | -138,825 |
| Investment income | 71,727 | 76,441 | 124 | 4,456 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other income | 332,875 | 23,017 | 262,339 | 118,402 | 325,724 | 3 | 0 | 0 | 6,181,951 | 1,875,677 |

### Cost of intangible and property, plant and equipment assets by operating segment odsekih

| (EUR) | Reinsurance business | | Non-life insurance business | | Life insurance business | | Pensions | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Investments in intangible assets | 334,072 | 196,213 | 1,421,825 | 806,960 | 345,710 | 36,037 | 82,396 | 38,812 | 0 | 672 | 2,184,003 | 1,078,694 |
| Investments in property, plant and equipment | 396,598 | 289,914 | 1,981,927 | 4,620,411 | 25,900 | 96,989 | 35,159 | 73,814 | 370,235 | 23,512 | 2,809,819 | 5,104,640 |

The Group's insurance operations are focused on Slovenia and the Adria region (Serbia, Croatia, Montenegro, North Macedonia and Kosovo), while its reinsurance operations take place in global reinsurance markets.

## 17.5 Standards and interpretations issued but not yet effective and new standards and interpretations

The accounting policies applied are consistent with those of the previous financial year, except for the following new or amended IFRSs adopted by the Group for annual periods beginning on or after 1 January 2018.

### Amended standards that are already effective

**IFRS 9 Financial Instruments**

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard and considers postponing the application of IFRS 17 Insurance Contracts.

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Due to the adoption of the new standard on insurance contracts, IFRS 17, insurance companies may apply the standard as of 1 January 2021. Late application is conditional upon the carrying amount of liabilities arising out of insurance business exceeding 90% of the total carrying amount of liabilities. The satisfaction of this condition was tested as at 31 December 2015. The calculation is shown in the table below. There have been no changes that would have any significantly effect on the satisfaction of the condition since 31 December 2015.

The Group must disclose certain data under IFRS 9 as follows.

| (EUR) | 31/12/2015 | As % of total liabilities |
|---|---|---|
| Technical provisions and liabilities from operating activities | 937,776,777 | 79.1% |
| Technical provision for the benefit of life insurance policyholders who bear the investment risk | 207,590,086 | 17.5% |
| **Liabilities under insurance contracts subject to IFRS 4** | **1,145,366,863** | **96.6%** |
| **Other liabilities** | **40,674,000** | **3.4%** |
| **Total liabilities*** | **1,186,040,863** | **100.0%** |

* Excluding equity, junior bonds and investment contract liabilities.

| (EUR) | 31/12/2018 | As % of total liabilities | 31/12/2017 | As % of total liabilities |
|---|---|---|---|---|
| Technical provisions and liabilities from operating activities | 970,946,033 | 78.9% | 991,269,834 | 78.5% |
| Technical provision for the benefit of life insurance policyholders who bear the investment risk | 210,032,637 | 17.1% | 226,527,893 | 17.9% |
| **Liabilities under insurance contracts subject to IFRS 4** | **1,180,978,670** | **96.0%** | **1,217,797,727** | **96.4%** |
| **Other liabilities** | **49,351,630** | **4.0%** | **44,950,411** | **3.6%** |
| **Total liabilities*** | **1,230,330,300** | **100.0%** | **1,262,748,138** | **100.0%** |

* Excluding equity and investment contract liabilities.

The other liabilities item does not include investment contract liabilities disclosed by the Slovenian pension company, as it is already applying IFRS 9 (the calculation excluding investment contracts totals 96%).

The following table shows SPPI test data on investment contracts.

| (EUR) | SPPI financial assets | | | Other financial assets | | |
|---|---|---|---|---|---|---|
| | Fair value as at 31/12/2017 | Change in fair value | Fair value as at 31/12/2018 | Fair value as at 31/12/2017 | Change in fair value | Fair value as at 31/12/2018 |
| Debt securities | 1,124,716,503 | -40,828,231 | 1,083,888,272 | 20,553,955 | -3,906,891 | 16,647,063 |
| Equity securities | 0 | 0 | 0 | 209,738,869 | -4,900,623 | 204,838,246 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and deposits | 41,434,650 | -9,755,587 | 31,679,063 | 0 | 0 | 0 |
| Cash and cash equivalents | 50,941,476 | 30,599,235 | 81,540,711 | 0 | 0 | 0 |
| **Total** | **1,217,092,629** | **-19,984,583** | **1,197,108,046** | **230,292,824** | **-8,807,515** | **221,485,309** |

| Credit rating of SPPI assets as at 31/12/2018 | | | | | | |
|---|---|---|---|---|---|---|
| (EUR) | Total | AAA | AA/A | BBB | BB/B | Not rated |
| Debt securities | 1,072,599,133 | 282,907,731 | 493,518,545 | 183,439,140 | 73,628,124 | 39,105,592 |
| Loans and deposits | 31,266,486 | 0 | 0 | 14,002 | 652,062 | 30,600,422 |
| Cash and cash equivalents | 82,351,592 | 0 | 0 | 0 | 17,478,871 | 64,872,721 |
| **Total** | **1,186,217,210** | **282,907,731** | **493,518,545** | **183,453,143** | **91,759,057** | **134,578,734** |

| (EUR) | SPPI assets that do not have a poor credit rating | |
|---|---|---|
| | Fair value as at 31/12/2018 | Carrying amount as at 31/12/2018 |
| Debt securities | 104,039,163 | 103,460,705 |
| Loans and deposits | 5,770,604 | 5,767,751 |
| Cash and cash equivalents | 17,478,871 | 17,478,871 |
| **Total** | **127,288,638** | **126,707,327** |

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Group's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The management has assessed that the Group is exempted from the application of the standard as it applies IFRS 4 Insurance Contracts, IAS 39 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate financial statements, and IAS 28 Investments in Associates and Joint Ventures.

**IFRS 15 Revenue from Contracts with Customers (Clarifications)**

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The management has assessed that the Group is exempted from the application of the standard.

**IFRS 2 Classification and Measurement of Share-based Payment Transactions — (Amendments)**

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Group's financial statements.

**IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**

The Amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard IFRS 17, which is currently being developed and covers insurance contracts. The new standard is to replace IFRS 4. The Amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. Regarding the implementation of IFRS 9, the management has opted to apply the temporary exemption from this standard until the coming into force of IFRS 17.

**IAS 40 Transfers to Investment Property (Amendments)**

The Amendments clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in Group companies' management's intentions for the use of a property does not provide evidence of a change in use. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Group's financial statements.

**IFRIC INTERPRETATION 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The management has assessed the effect and believes that the enforcement of the amendments will have no significant effect on the Group's financial statements.

## Issued Annual Improvements

The IASB has issued the Annual Improvements to IFRSs 2014–2016 Cycle, which is a collection of amendments to IFRSs. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Group's financial statements.

**IFRS 1 First-time Adoption of International Financial Reporting Standards**

This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

**IAS 28 Investments in Associates and Joint Ventures**

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

## Standards issued but not yet effective and not early adopted by the Group

**IFRS 16 Leases**

As of 1 January 2019, the Group will recognise right-to-use assets on long-term leases (more than one year) in excess of USD 5,000 in accordance with IFRS 16, which applies as of 1 January 2019. The Group has reviewed all of its lease contract, examining the right to control certain assets during a certain period. The lease term is set by the contract or estimated for leases entered into for an indefinite period or with the option of extending the lease term. The Group calculates the right to use an underlying asset as the discounted future cash flows of the lease payments over the term of the lease. The discount rate applied takes into account the Company's credit rating and the lease term. Upon first application of the standard, the Group applied a simplified approach with recalculations for all lease contracts as at 1 January 2019.

| (EUR) | 01/01/2019 |
|---|---|
| **Operating lease liabilities recognised as at 01/01/2019** | **9,385,523** |
| Operating lease liabilities – discounting of lessee's incremental borrowing rate as at 01/01/2019* | 9,370,964 |
| **Interest liabilities relating to operating lease recognised as at 01/01/2019** | **-14,559** |
| Value of right-to-use assets as at 01/01/2019 (relating to operating leases) | 9,370,964 |
| **Finance lease liabilities recognised as at 01/01/2019** | **0** |
| **Interest liabilities relating to finance lease recognised as at 01/01/2019** | **0** |
| Value of right-to-use assets as at 01/01/2019 (relating to finance leases) | 0 |
| **Value of right-to-use assets as at 01/01/2019** | **9,370,964** |
| **Lease liabilities – depreciation as at 01/01/2019** | **9,385,523** |
| **Lease liabilities – interest as at 01/01/2019** | **-14,559** |
| **Relief option for:** | |
| - short-term leases | 392,730 |
| - low value leases | 12,366 |
| Extension and cancellation of lease option | 0 |
| Variable lease payments that depend on an index or rate | 0.00 |
| Residual value guarantee | 0.00 |
| **Total lease liabilities as at 01/01/2019** | **9,776,060** |

**IFRS 17 Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not yet been endorsed by the EU. The management has assessed the effect of the standard on the consolidated financial statements and believes that the enforcement of the standard will have a significant effect on the consolidated financial statements.

**Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss must be recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The Amendments to the standard have not been yet endorsed by the EU. The management estimates that it will have no impact on the Group's financial statements.

**IFRS 9 Prepayment features with negative compensation (Amendment)**

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be "negative compensation"), to be measured at amortised cost or at fair value through other comprehensive income. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Group's financial statements.

**IAS 28 Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the "net investment" in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The Amendments to the standard have not been yet endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Group's financial statements.

**IFRIC INTERPETATION 23 Uncertainty over Income Tax Treatments**

The interpretations are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Group's financial statements.

**IAS 19 Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Group's financial statements.

**Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

**IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted. These Amendments have not yet been endorsed by the EU.

**IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors Definition of "material" (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU.

## Issued Annual Improvements

The IASB has issued the Annual Improvements to IFRSs 2015-2017 Cycle, which is a collection of amendments to IFRSs. The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. These Improvements have not yet been endorsed by the EU.

**IFRS 3 Business Combinations and IFRS 11 Joint Arrangements**

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

**IAS 12 Income Taxes**

The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits has been recognised.

**IAS 23 Borrowing Costs**

The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

## 17.6 Risk management[117]

The most important types of risk that the Group is exposed to are underwriting risks (underwriting process risk, pricing risk, claims risk, net retention risk, reserving risk and risks associated with the retrocession programme and life insurance business), financial risks (risk of failure to realise guaranteed returns, interest rate risk, equity risk, risk of alternative investments, currency risk, liquidity risk and credit risk), insolvency risk, risk relating to investment contracts, operational and strategic risk. To illustrate concentration risk for insurance contracts, a table showing a breakdown of insurance premiums by region is provided in section 17.4.36 "Segment reporting".

The following table shows the changes in the Group's risk profile in 2018 compared to 2017. The risks have been assessed with regard to the potential volatility of business results and the resulting impact on the Group's financial statements. The potential impact in case an extreme internal or external risk realises and the impact on the Group's solvency position is set out in the "Sava Re Group Solvency and financial condition report".

**Change in the Group's risk profile compared to the previous year**

| | Risk rating | Risk described in section |
|---|---|---|
| **Insolvency risk** | **low** | **17.6.1** |
| **Investment contract risks** | **low** | **17.6.3** |
| **Non-life underwriting risk** | | **17.6.2** |
| Underwriting process risk | medium | 17.6.2.1 |
| Pricing risk | medium | 17.6.2.2 |
| Claims risk | medium | 17.6.2.3 |
| Net retention risk | medium | 17.6.2.4 |
| Reserve risk | low | 17.6.2.5 |
| Retrocession programme | low | 17.6.2.6 |
| **Life underwriting risk** | **low** | **17.6.2.8** |
| **Financial risks** | | **17.6.3** |
| Risk of failure to realise guaranteed returns | medium | 17.6.3.1 |
| Interest rate risk | low | 17.6.3.2.1 |
| Equity risk | medium | 17.6.3.2.2 |
| Alternative investment risk | medium | 17.6.3.2.3 |
| Currency risk | low | 17.6.3.2.4 |
| Liquidity risk | low | 17.6.3.3 |
| Credit risk | medium | 17.6.3.4 |
| **Operational risks** | **medium** | **17.6.4** |
| **Strategic risks** | **medium** | **17.6.5** |

[117] GRI 102-11

### 17.6.1 Capital adequacy and capital management in the Sava Re Group

The Group uses the standard formula for calculating its capital requirements under the Solvency II regime. The solvency capital requirement is calculated annually, while eligible own funds supporting the Group's solvency requirements are valued on a quarterly basis.

The following table shows the Group's capital adequacy calculation as at 31 December 2017[118].

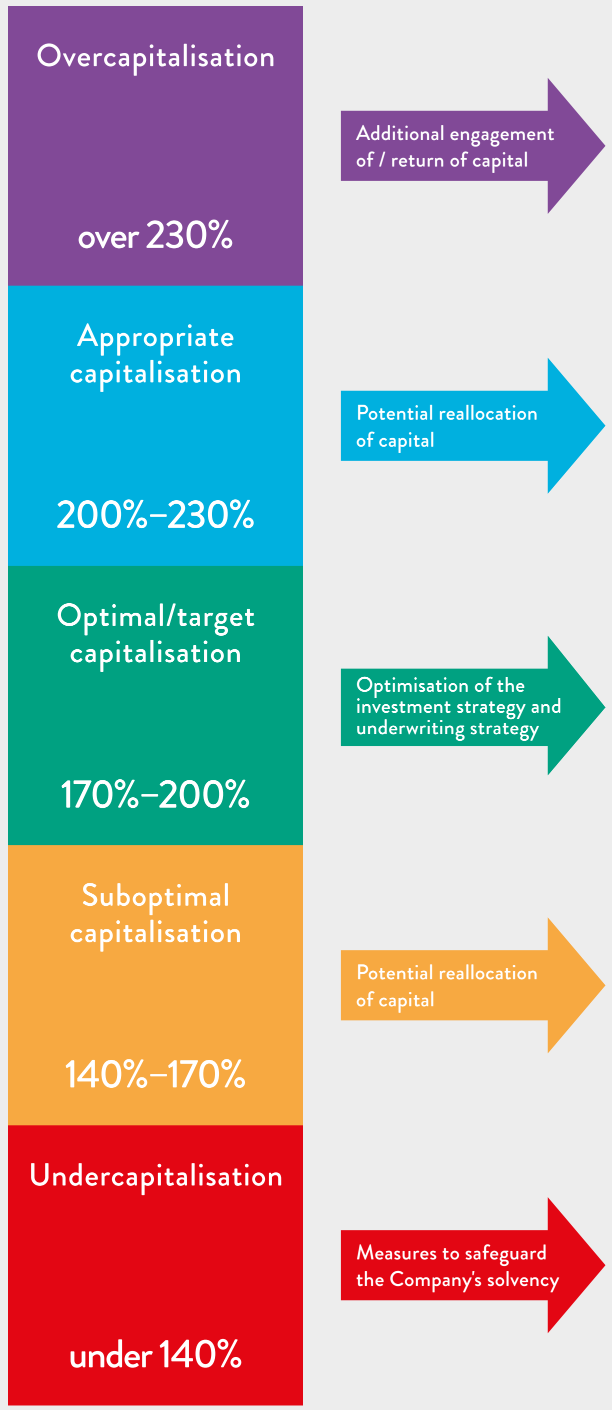
**Capital adequacy of the Sava Re Group**

| (EUR) | 31/12/2017 |
|---|---|
| Eligible own funds | 451,398,017 |
| Minimum capital requirement | 106,009,023 |
| Solvency capital requirement (SCR) | 205,015,362 |
| **Solvency ratio** | **220%** |

The Group's eligible own funds as at 30 September 2018 totalled EUR 458.8 million and were slightly higher than as at 31 December 2017. It needs to be noted that foreseeable dividends for 2018 are not considered in the calculation of eligible own funds in the first three quarters, while eligible own funds as at 31 December 2018 will be reduced by the foreseeable dividends. We assess that the level of eligible own funds at the end of 2018 will be slightly below the one as at 31 December 2017.

We expect that the solvency capital requirement as at 31 December 2018 will be slightly higher and the solvency ratio slightly lower than as at 31 December 2017.

As part of its risk strategy, the Sava Re Group has defined capitalisation ranges in terms of the solvency ratio:




We assess that Sava Re Group's solvency ratio will be within the optimal capitalisation range as at 31 December 2018. The Sava Re Group will be striving to maintain such a capital position in the coming years.

[118] During the preparation of the audited annual report, the Sava Re Group is yet to obtain audited capital adequacy data for 2018. The calculation will be published in the "Sava Re Group solvency and financial condition report for 2018" to be released on 3 June 2019.

## 17.6.2 Underwriting risk

As part of the underwriting risk category, the Group is exposed to underwriting process risk (insurance and reinsurance), pricing risk, claims risk, retention risk and reserving risk. The Group is indirectly exposed to some other underwriting risks, such as product design risk, economic environment risk and policyholder behaviour risk. While these risks may be significant, we believe their impact is indirectly reflected in the main underwriting risks, which is why we do not consider them in detail.

The basic purpose of both non-life and life insurance is the assumption of risk from policyholders. In addition to the risks assumed directly by Group primary insurance companies, the controlling company also indirectly assumes reinsurance risks from cedants outside the Group. The Group retains a portion of the assumed risks and retrocedes the portion that exceeds its capacity. The Group classifies its insurance and reinsurance contracts as insurance and investment contracts within the meaning of IFRS 4. Below is a detailed outline of the risks arising out of insurance contracts, as required under IFRS 4.

First, we present underwriting risks arising out of non-life business. This is followed by risks arising out of life insurance business. In addition, the Group has a minor exposure relating to health insurance business. Health insurance business pursued on a similar technical basis as non-life insurance business, the risks of which are therefore similar to non-life insurance risks, are discussed under non-life insurance. Health insurance business pursued on a similar technical basis as life insurance business, the risks of which are therefore similar to life insurance risks, are discussed under life insurance.

### 17.6.2.1 Underwriting process risk – non-life business

The Group mitigates underwriting process risk mainly by complying with established and prescribed underwriting procedures (especially with large risks); correctly determining the probable maximum loss (PML) for each risk; complying with internal underwriting guidelines and instructions; complying with the authorisation system; and having in place an appropriate pricing and reinsurance policy.

Most non-life insurance contracts are renewed annually. This allows insurers to amend the conditions and rates to take into account any deterioration in the underwriting results of entire classes of business, and for major policyholders in a timely manner.

Where significant risks are involved, underwriting experts of the controlling company collaborate with the underwriters of subsidiaries (and risks are mainly reinsured with the controlling company). Additionally in respect of risks exceeding the limits set out in the reinsurance treaties, it is vital that adequate facultative reinsurance cover is obtained to upgrade the basic reinsurance programme.

Underwriting risks in excess of the Group's capacity are reduced through retrocession contracts.

We estimate that underwriting process risk relating to (re)insurance business is well managed, although it moderately increased in 2018 compared to 2017 due to an increase in premium volume. This is because net non-life premiums written by the Group grew by 9.2% or EUR 34.9 million compared to 2017.

### 17.6.2.2 Pricing risk – non-life business

Pricing risk is the risk that (re)insurance premiums charged will be insufficient to cover future obligations arising from (re)insurance contracts. Principally, the Group monitors pricing risk by conducting actuarial analyses of loss ratios and identifying their trends and by making relevant corrections. When premium rates are determined for new products, the pricing risk can be monitored by prudently modelling loss experience, by comparing against market practice, and by comparing the actual loss experience against estimates.

In proportional reinsurance contracts, reinsurance premiums depend on insurance premiums, mostly set by ceding companies, while the risk premium also depends on the commission recognised by the reinsurer. Therefore, the Group manages this risk by having an appropriate underwriting process in place and by adjusting applicable commission rates. Likewise in respect of non-proportional reinsurance treaties, the pricing risk is managed by properly underwriting the risks to be reinsured and by determining adequate reinsurance premiums. Expected results of individual reinsurance contracts entered into on the basis of available information and set prices must be in line with target combined ratios, while the adequacy of prices is verified through modelling and reviewing of results on the portfolio level.

Based on reasonable actuarial expectations of claims movements or loss ratios and expenses or expense ratios and assuming rational behaviour of all market participants, the premium rates on the Group level allow the achievement of a combined ratio below 100%. The Group considers the aggregate pricing risk to have been moderate in 2018 and similar to that in 2017.

### 17.6.2.3 Claims risk – non-life business

Claims risk is the risk that the number of claims or the average claim amount will be higher than expected. This risk may materialise due to incorrect assessments in the underwriting process, changes in court practice, new types of losses, increased claims awareness, changes in macroeconomic conditions and such like.

The claims risk is managed through designing appropriate policy conditions and tariffs, appropriate underwriting, monitoring risk concentration by site or geographical area and especially through adequate reinsurance and retrocession programmes.

Based on the realised loss events and their small impact on the Group's profit, we believe that the risk management measures set out are adequate and we estimate that the claims risk remained on a similar level as in the previous period.

### 17.6.2.4 Net retention risk – non-life business

Net retention risk is the risk that higher retention of insurance loss exposures will result in large aggregate losses due to catastrophic or concentrated claims experience. This risk may also materialise in the event of "shock losses", where a large number of insured properties are impacted. This may occur especially through losses caused by natural peril events, which are generally covered by a basic or an additional fire policy or by a policy attached to an underlying fire policy (e.g. business interruption policy or earthquake policy).

The Group manages this risk by way of adequate professional underwriting of the risks to be insured, partly by measuring the exposure to natural peril events by geographical area and designing appropriate reinsurance programmes. In managing these risks, due consideration is given to the fact that maximum net aggregate losses in any one year are affected both by the maximum net claim arising from a single catastrophe event as well as by the frequency of such events.

The Group considers the net retention risk to have remained essentially the same in both 2018 and 2017.

### 17.6.2.5 Reserve risk – non-life business

When establishing technical provisions, the Group takes into account any underreserved technical provisions identified on the subsidiary company level, recognising any identified deficiencies at the Group level.

Unearned premiums are established by Group members on a pro rata basis at the insurance policy level. In addition to unearned premiums, the Group establishes provisions for unexpired risks for those homogeneous risk groups where the combined ratio (loss ratio plus expense ratio) is expected to exceed 100%.

Due to the difference in reserving (set out later in the report) methodologies used in accepted reinsurance and primary insurance business, the run-off analysis was made separately for primary insurance and reinsurance business.

Subsidiaries analyse claims provision data by accident year, unlike reinsurers, who analyse data by underwriting year. The table below shows an adequacy test/analysis of gross claims provisions established by the Group for liabilities under non-life primary insurance contracts. Amounts were translated from local currencies into euros using the exchange rate prevailing at the end of the year (provisions) or in the middle of the year (claims paid).

**Adequacy analysis of gross claims provisions for past years – non-life insurance business**

| (EUR thousand) | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| **Estimate of gross liabilities** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| As originally estimated | 292,403 | 311,449 | 302,508 | 312,626 | 313,058 | 301,792 |
| Reestimated as of 1 year later | 248,748 | 251,958 | 254,822 | 256,010 | 254,841 | |
| Reestimated as of 2 years later | 218,062 | 231,885 | 218,171 | 214,490 | | |
| Reestimated as of 3 years later | 207,571 | 205,037 | 185,407 | | | |
| Reestimated as of 4 years later | 186,200 | 179,385 | | | | |
| Reestimated as of 5 years later | 165,651 | | | | | |
| **Cumulative gross redundancy (latest estimate – original estimate)** | **126.752** | **132.065** | **117.101** | **98.136** | **58.217** | |
| Cumulative gross redundancy as % of original estimate | 43.3% | 42.4% | 38.7% | 31.4% | 18.6% | |

The cumulative gross redundancies for underwriting years from 2013 to 2016 increased if compared to amounts as at the end of the preceding year, which were 36.3%, 34.2%, 27.9% and 18.1% of original estimates.

Unlike for primary insurance business, the Group cannot use triangles based on accident year data for actuarial estimations of loss reserves in respect of accepted reinsurance business. This is because ceding companies report claims under quota share contracts by underwriting years. As claims under one-year policies written during any one year may occur either in the year the policy is written or in the year after, aggregated data for proportional reinsurance contracts are not broken down by accident year. Furthermore, some markets renew treaty business during the year, resulting in additional discrepancies between the underwriting year and the accident year. Due to these specifics, the Group provides data on reinsurance claims paid by underwriting year. The estimated liabilities relate to claims that have already been incurred the settlement of which is provided for within the claims provision, and to claims of the existing portfolio that have not yet been incurred the settlement of which is covered by unearned premiums, net of deferred commission.

The table below therefore shows originally estimated gross or net liabilities with claims provisions included at any year end plus unearned premiums less deferred commission, which is compared to subsequent estimates of these liabilities.

**Adequacy analysis of gross technical provisions for past years – reinsurance business**

| (EUR thousand) | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| **Estimate of gross liabilities** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| As originally estimated | 199,339 | 207,416 | 209,963 | 218,615 | 224,093 | 225,314 |
| Reestimated as of 1 year later | 170,890 | 183,590 | 191,260 | 191,207 | 196,533 | |
| Reestimated as of 2 years later | 160,099 | 174,579 | 175,447 | 177,623 | | |
| Reestimated as of 3 years later | 156,865 | 164,654 | 165,546 | | | |
| Reestimated as of 4 years later | 147,772 | 157,337 | | | | |
| Reestimated as of 5 years later | 142,401 | | | | | |
| **Cumulative gross redundancy (latest estimate – original estimate)** | **56.938** | **50.079** | **44.417** | **40.993** | **27.561** | |
| Cumulative gross redundancy as % of original estimate | 28.6% | 24.1% | 21.2% | 18.8% | 12.3% | |

The cumulative gross redundancies for the underwriting years from 2013 to 2016 increased compared to amounts at the end of the preceding year, which were 25.9%, 20.6%, 16.4% and 12.5% of original estimates.

Due to the high cumulative redundancies of both the gross claims provision for non-life business and the gross technical provision for reinsurance business, we estimate that reserving risk at the end of 2017 is relatively small and similar to that at year-end 2015.

### 17.6.2.6 Retrocession programme – non-life business

To reduce the underwriting risks to which it is exposed, the Group must have in place an appropriate reinsurance programme (in particular a retrocession programme). These are designed so as to reduce exposure to possible single large losses or the effect of a large number of single losses arising from the same loss event. The Group considers its reinsurance programme (including proportional and non-proportional reinsurance) to be appropriate in view of the risks it is exposed to. Net retention limits set by the Group are only rarely applied. The Group also concludes co-insurance and reciprocal contracts with other reinsurers to further disperse risks. The Group's net retained portfolio, relating to both domestic and foreign cedants, is further covered for potentially large losses through a prudently designed non-proportional reinsurance programme, which in 2018 was somewhat adjusted due to the portfolio growth and extended to cover a larger frequency of catastrophic events:

- Catastrophe excess of loss cover for Slovenian risks, covering all Group companies, has two instead of one payable reinstatement on the first and second layers.
- A sublayer was added to the catastrophe excess of loss cover for non-Group inwards business with a priority of EUR 5 million to protect against a higher frequency of events in one year. In the event of an aggregate claim after the operation of the main cover of EUR 6 million, the sublayer provides cover of EUR 3 million in excess of a priority of EUR 2 million.
- The motor liability excess of loss cover for the Group portfolio has a priority of EUR 1.5 million (previously EUR 1 million) and a capacity of EUR 4.5 million (previously EUR 5 million).
- The general liability excess of loss cover for the Group portfolio has a priority of EUR 2 million (previously EUR 1 million) and a capacity of EUR 3 million.
- The marine excess of loss cover for the Group and non-Group portfolio has been unified and now operates per risk and per event (previously only for the Group portfolio, while the non-Group portfolio had been covered per event only). The cover has a priority of EUR 2 million (previously EUR 1 million) and a capacity of EUR 4 million (previously EUR 2.5 million).

### 17.6.2.7 Estimated exposure to underwriting risks – non-life business

An increase in realised underwriting risk would essentially result in an increase in net claims. As the Group has in place an adequate retrocession programme, it is not exposed to the risk of a sharp increase in net claims, not even in case of catastrophic losses. A more likely scenario to which the Group is exposed to is the deterioration of the net combined ratio as a result of an increase in claims or expenses along with a decrease in premiums. If the Group's net combined ratio increased/decreased by 1 percentage point, its net profit before tax would decrease/increase by EUR 4.39 million (2017: EUR 3.98 million).

The net retention limit per risk is set at EUR 4 million for the majority of non-life classes of insurance and a combined limit of EUR 4 million is used for the classes fire and natural forces, other damage to property and miscellaneous financial loss; a net retention limit of EUR 2 million is set for motor liability and for marine; the net retention limit for life policies is EUR 300,000. In principle, this caps any net claim arising out of any single loss event at a maximum of EUR 4 million. In case of any catastrophe event, e.g. flood, hail, storm or even earthquake, the maximum net claim payable is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is EUR 5 million for Group business as well as non-Group business. These amounts represent the maximum net claim on the Group level for a single catastrophe event based on reasonable actuarial expectations. In some international markets (India, USA, China), this retention may be exceeded, but cannot be larger than EUR 8 million. In case of multiple catastrophic events in any single year, the non-proportional treaties include reinstatement provisions. Hence, the probability that a large number of catastrophe events would compromise the solvency position of the Group is negligible. As the number of catastrophic events randomly fluctuates, an increase in net claims must always be expected. This may have an adverse effect on profit or loss, but will not compromise the Group's solvency position, which has been tested using scenarios as part of the own risk and solvency assessment.

The risk that the underwriting risk may seriously compromise the Group's financial stability is deemed, according to our assessment, low and there are no significant differences between 2018 and 2017.

### 17.6.2.8 Underwriting risks in life insurance

The main risks that the Group is exposed to due to life insurance operations are lapse risk, mortality risk and life expense risk. The exposure to other risks, such as longevity, disability and morbidity risk, is smaller.

Underwriting risks relating to additional accident business are similar to those described under non-life insurance and are managed in a similar way.

In order to manage the underwriting risk of life insurance business, the Group regularly monitors mortality and morbidity rates, termination of life policies, looking for specific trends. In addition, it regularly conducts adequacy testing of provisions. The Group also manages underwriting risk by strictly complying with underwriting procedures. These specify the criteria and terms of risk acceptance. At given premium rates, risk assumption depends on the age at entry and the requested sum insured. The Group accepts risks if the insured's health, as a measure of risk quality, is in line with table data listing criteria for medical examinations. An additional factor in the assumption of risks is lifestyle, including leisure activities and occupation. The Group has in place an appropriate reinsurance programme in order to limit the impact of underwriting risk; covers are generally on a proportional basis. The retention of insurers generally does not exceed EUR 50,000. Critical illness is reinsured with a foreign partner (Partner Re).

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

We estimate that the exposure to underwriting risk relating to life insurance business remained at the same level as in 2017.

### 17.6.3 Financial risks

In their financial operations, individual Group companies are exposed to financial risks, such as market, liquidity, and credit risk and the risk of failure to realise guaranteed returns on life business.

In 2018, the Group included KSNT investments into the investment portfolio with exposure to financial risk. KSNT investments are investments for which an insurance subsidiary provides guaranteed unit values, thereby assuming the risk of achieving the guaranteed return. As at 31 December 2018, the value of these investments totalled EUR 82.6 million (31/12/2017: EUR 89.7 million). Accordingly, the below table shows adjusted 2017 comparative figures relating to the investment portfolio. As at 31 December 2018, investment portfolio assets of 1,164.9 million are exposed to financial risk (31/12/2017: 1,173.9 million), including:

- financial investments of EUR 1,008.1 million (31/12/2017: EUR 1,038.1 million),
- investment property assets of EUR 20.6 million (31/12/2017: EUR 15.4 million),
- cash and cash equivalents of EUR 64.7 million (including the value of KSNT assets of EUR 11.1 million (31/12/2017: EUR 38.0 million, of which EUR 7.2 million KSNT assets) and
- KSNT investments guaranteed by the insurer of EUR 71.6 million (31/12/2017: EUR 82.5 million).

**Investments exposed to financial risk**

| Type of investment | 31/12/2018 | As % of total 31/12/2018 | 31/12/2017 | As % of total 31/12/2017 | Absolute difference 31/12/2018 / 31/12/2017 | Change in structure 31/01/2018 / 31/12/2017 |
|---|---|---|---|---|---|---|
| Deposits and CDs | 27,740,278 | 2.4% | 35,132,062 | 3.0% | -7,391,784 | -0.6% |
| Government bonds | 587,645,179 | 50.5% | 600,051,963 | 51.1% | -12,406,784 | -0.6% |
| Corporate bonds | 400,292,979 | 34.4% | 426,578,476 | 36.3% | -26,285,497 | -2.0% |
| Shares (excluding strategic shares) | 15,675,617 | 1.3% | 17,524,834 | 1.5% | -1,849,217 | -0.1% |
| Mutual funds | 35,635,616 | 3.1% | 34,904,842 | 3.0% | 730,774 | 0.1% |
| bond and money market | 32,737,150 | 2.8% | 32,503,306 | 2.8% | 233,844 | 0.0% |
| mixed | 48,279 | 0.0% | 167,621 | 0.0% | -119,342 | 0.0% |
| equity funds | 2,850,187 | 0.2% | 2,233,915 | 0.2% | 616,272 | 0.1% |
| Infrastructure | 5,264,540 | 0.5% | 0 | 0.0% | 5,264,540 | 0.5% |
| Loans granted and other | 1,116,239 | 0.1% | 591,985 | 0.1% | 524,254 | 0.0% |
| Deposits with cedants | 6,275,310 | 0.5% | 5,832,347 | 0.5% | 442,963 | 0.0% |
| **Financial investments** | **1,079,645,758** | **92.7%** | **1,120,616,508** | **95.5%** | **-40,970,750** | **-2.7%** |
| Investment property | 20,643,019 | 1.8% | 15,364,184 | 1.3% | 5,278,835 | 0.5% |
| Cash and cash equivalents | 64,657,431 | 5.6% | 37,956,119 | 3.2% | 26,701,312 | 2.3% |
| **Investment portfolio** | **1,164,946,208** | **100.0%** | **1,173,936,811** | **100.0%** | **8,990,602** | **0.0%** |

* The 2017 figures differ from those published in the 2017 annual report as the investment portfolio includes KSNT investments (life liability fund) for which the insurer provides guaranteed unit values (2017: EUR 1,084.2 million).

The investments of policyholders relating to unit-linked life business where policyholders fully bear the investment risk are excluded from the analysis of risks; as at year-end 2018, these totalled EUR 133.3 million (31/12/2017: EUR 144.7 million).

The risk of failure to realise guaranteed returns also includes the risk of investment contracts relating to the long-term business funds of the voluntary supplementary pension insurance (VSPI) that Sava Pokojninska manages for the benefit of policyholders.

### 17.6.3.1 Risk of failure to realise guaranteed returns

The Group is exposed to the risk of failing to achieve the guaranteed return, specifically with investment contracts and with traditional and unit-linked life insurance business.

**Investment contracts**

The Group's investment contracts include a group of life cycle funds called MOJI skladi življenjskega cikla (MY life-cycle funds), relating to supplementary pension business of the company Sava Pokojninska in the accumulation phase. The company manages the group of long-term life-cycle funds MOJI skladi življenjskega cikla, which comprise three funds: MOJ dinamični sklad (MY Dynamic Fund), MOJ uravnoteženi sklad (MY Balanced Fund), and MOJ zajamčeni sklad (MY Guaranteed Fund). Investment contract liabilities are not included in the consolidated technical provisions item, and are, therefore, not included in the presentation of underwriting risk. Investment contract assets are not included in the consolidated financial investments item, and are, therefore, not included in the presentation of financial risks. In addition, there is a risk of failing to achieve the guaranteed return associated with investment contract assets and liabilities for the long-term business fund with a guaranteed return (MGF).

The members of the supplementary pension insurance scheme thus bear the entirely investment risk arising out of the two funds MDF and MBF, while with the MGF they bear the investment risk above the guaranteed return. The guaranteed return of MGF is 60% of the average annual interest rate on government securities with a maturity of over one year. Liabilities relating to MGF comprise paid in premiums, guaranteed return and amounts in excess of the guaranteed return, provided the company achieved it. For each member, the fund administrator keeps a personal account with accumulating net contributions and assets to exceed the guaranteed return (provisions); for MGF, additionally the guaranteed return is maintained. Liabilities to the members of the MDF and MBF move in line with the value of investments; members fully bear the investment risk. In years when the return in excess of guaranteed return is realised, liabilities to the members of the MGF for assets in excess of guaranteed levels of assets are increased; if, however, realised return is below the guaranteed level, this part of liabilities decreases until the provision is fully exhausted. The described control of guaranteed return is carried out at the level of individual members' accounts. In the event that individual provisions of any account are not sufficient to cover the guaranteed assets, the company is required to make provisions for the difference, which may exceed 20% of the capital. Any excess must be covered by the company's own funds.

The risk of failing to realise guaranteed returns is managed primarily through appropriate management of policyholder assets and liabilities, an appropriate investment strategy, an adequate level of the company's capital and provisioning. The Group tests its risk exposure arising out of guaranteed return through stress tests and scenarios as part of the own risk and solvency assessment. We assess that the risk of having to contribute funds in order to deliver the guaranteed return is small and did not change compared to 2017.

The value of fund assets of the North Macedonian pension company Sava Penzisko Društvo (two funds, mandatory and voluntary) is not included in the statement of financial position of the company as these are funds under management (similar treatment as with fund management companies). The role of the North Macedonian pension company is solely to manage the assets; the funds have no guaranteed return. Consequently, the company is not exposed to the risk to which investment contracts are exposed, i.e. failure to realise the guaranteed return.

**Traditional and unit-linked life insurance contracts**

With regard to its traditional and unit-linked life insurance business with a guaranteed unit value, the insurer is exposed to the risk of failure to realise the guaranteed return. The table below shows the value of assets to cover any liabilities relating to life business by register. The table shows the book return on investments and the guaranteed return of liabilities.

Effect of the risk of failure to realise guaranteed returns by register as at 31 December 2018

| (EUR) Financial investments supporting life insurance liabilities with guaranteed NAV | INVESTMENTS | | | LIABILITIES | | | Effect of not realising guaranteed returns |
|---|---|---|---|---|---|---|---|
| | Balance | Book return | Book net investment income | Balance | Guaranteed return | Guaranteed net investment income | |
| ZAVAROVALNICA SAVA d.d. - KSŽZ 1 | 11,916,875 | 2.40% | 286,005 | 10,520,207 | 2.40% | 252,485 | 33,520 |
| ZAVAROVALNICA SAVA d.d. - KSŽZ 2 | 3,190,656 | 0.60% | 19,782 | 2,503,188 | 2.20% | 55,571 | -35,789 |
| ZAVAROVALNICA SAVA d.d. - KSNT - 2 (ZM Zajamčeni) | 27,114,965 | 2.00% | 547,722 | 28,033,351 | 2.70% | 768,114 | -220,392 |
| ZAVAROVALNICA SAVA d.d. - KSNT - 2a - (ZM Garant) | 2,104,156 | 0.00% | 0 | 2,470,210 | 0.60% | 14,327 | -14,327 |
| ZAVAROVALNICA SAVA d.d. - KSNT – 3 (ZS Varnost and ZS Zajamčeni) | 36,130,866 | 0.60% | 205,946 | 36,157,613 | 0.00% | 10,847 | 195,099 |
| **Total** | **80,457,518** | **1.32%** | **1,059,455** | **79,684,569** | **1.38%** | **1,101,344** | **-41,889** |

Effect of the risk of failure to realise guaranteed returns by register as at 31 December 2017

| (EUR) Financial investments supporting life insurance liabilities with guaranteed NAV | INVESTMENTS | | | LIABILITIES | | | Effect of not realising guaranteed returns |
|---|---|---|---|---|---|---|---|
| | Balance | Book return | Book net investment income | Balance | Guaranteed return | Guaranteed net investment income | |
| ZAVAROVALNICA SAVA d.d. - KSŽZ 1 | 12,270,808 | 2.82% | 346,037 | 10,876,369 | 2.42% | 263,390 | 82,647 |
| ZAVAROVALNICA SAVA d.d. - KSŽZ 2 | 2,316,994 | 0.74% | 17,146 | 2,026,985 | 2.10% | 42,534 | -25,389 |
| ZAVAROVALNICA SAVA d.d. – KSNT – 2 (ZS Zajamčeni) | 24,414,858 | 2.63% | 642,111 | 24,548,841 | 2.74% | 673,455 | -31,344 |
| ZAVAROVALNICA SAVA d.d. - KSNT - 2a - (ZM Garant) | 1,313,503 | 0.00% | 0 | 1,513,148 | 0.18% | 2,675 | -2,675 |
| ZAVAROVALNICA SAVA d.d. - KSNT - 3 (ZS Varnost and ZS Zajamčeni) | 45,805,687 | 0.53% | 242,770 | 45,575,555 | 0.01% | 3,238 | 239,532 |
| **Total** | **86,121,850** | **1.45%** | **1,248,063** | **84,540,898** | **1.17%** | **985,292** | **262,772** |

We assess that the risk of failure to realise guaranteed returns is medium and did not change compared to 2017.

## 17.6.3.2 Market risk

Financial investments exposed to market risk

| Type of investment | 31/12/2018 | As % of total 31/12/2018 | 31/12/2017 | As % of total 31/12/2018 | Absolute difference 31/12/2018 / 31/12/2017 | Change in structure 31/01/2018 / 31/12/2017 |
|---|---|---|---|---|---|---|
| Deposits and CDs | 27,740,278 | 2.4% | 35,132,062 | 3.0% | -7,391,784 | -0.6% |
| Government bonds | 587,645,179 | 50.5% | 600,051,963 | 51.1% | -12,406,784 | -0.6% |
| Corporate bonds | 400,292,979 | 34.4% | 426,578,476 | 36.3% | -26,285,497 | -2.0% |
| Shares (excluding strategic shares) | 15,675,617 | 1.3% | 17,524,834 | 1.5% | -1,849,217 | -0.1% |
| Mutual funds | 35,635,616 | 3.1% | 34,904,842 | 3.0% | 730,774 | 0.1% |
| bond and money market | 32,737,150 | 2.8% | 32,503,306 | 2.8% | 233,844 | 0.0% |
| mixed | 48,279 | 0.0% | 167,621 | 0.0% | -119,342 | 0.0% |
| equity funds | 2,850,187 | 0.2% | 2,233,915 | 0.2% | 616,272 | 0.1% |
| Infrastructure | 5,264,540 | 0.5% | 0 | 0.0% | 5,264,540 | 0.5% |
| Loans granted and other | 1,116,239 | 0.1% | 591,985 | 0.1% | 524,254 | 0.0% |
| Deposits with cedants | 6,275,310 | 0.5% | 5,832,347 | 0.5% | 442,963 | 0.0% |
| **Financial investments** | **1,079,645,758** | **92.7%** | **1,120,616,508** | **95.5%** | **-40,970,750** | **-2.7%** |
| Investment property | 20,643,019 | 1.8% | 15,364,184 | 1.3% | 5,278,835 | 0.5% |
| Cash and cash equivalents | 64,657,431 | 5.6% | 37,956,119 | 3.2% | 26,701,312 | 2.3% |
| **Investment portfolio** | **1,164,946,208** | **100.0%** | **1,173,936,811** | **100.0%** | **-8,990,602** | **0.0%** |

* The 2017 figures differ from those published in the 2017 annual report as the investment portfolio includes KSNT investments (life liability fund) for which the insurer provides guaranteed unit values (2017: EUR 1,084.2 million).

As part of market risks, the Group makes assessments of interest rate risk, equity risk and currency risk.

#### 17.6.3.2.1 Interest rate risk

Interest rate risk is the risk of exposure to losses resulting from fluctuations in interest rates. These can cause a decrease in investments or an increase in liabilities.

The major part of interest rate risk on the liabilities side only affects the life insurance segment (mathematical provisions). Based on the prescribed methodology for the calculation of technical provisions for the purposes of preparing financial statements, on the non-life business side only temporary and life annuities arising out of liability policies are interest-rate sensitive; however, any change in liabilities due to changes in the capitalised value of annuities as a result of a decline in interest rates is negligible and has therefore not been considered in those calculations.

Interest rate risk is measured through a sensitivity analysis, by observing the change in the value of investments in bonds or the value of mathematical provisions in case of a change in interest rates by one percentage point. The interest-rate sensitive bond portfolio includes government and corporate bonds, bond mutual funds with a weight of 1 and mixed mutual funds with a weight of 0.5. The analysed investments do not include held-to-maturity bonds, deposits or loans granted as these are measured at amortised cost and are, therefore, not sensitive to changes in market interest rates.

The total value of investments included in the calculation as at 31 December 2018 was EUR 930.2 million (31/12/2017: EUR 938.8 million). Of this, EUR 580.3 million (31/12/2017: EUR 593.9 million) relates to assets of non-life insurers (including Sava Re) and EUR 350.7 million (31/12/2017: EUR 344.9 million) to assets of life insurers.

The sensitivity analysis of the non-life segment as at 31 December 2018 showed that in the event of an interest rate increase by one percentage point, the value of the interest rate sensitive investments would drop EUR 17.5 million (31/12/2017: EUR 18.8 million) or 3.0% (31/12/2017: 3.2%). The table below shows in greater detail how the value of investments changes in response to a change in interest rates and the impact on the financial statements, where the impact on equity is a result of available-for-sale investments and the impact on profit or loss a result of investments classified as at fair value through profit or loss.

**Results of the sensitivity analysis on interest-rate sensitive non-life investments**

| (EUR) | 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|
| | + 100 bp | | | - 100 bp | | |
| **Type of security** | **Value** | **Post-stress value** | **Change in value** | **Value** | **Post-stress value** | **Change in value** |
| Government bonds | 315,922,774 | 305,211,493 | -10,711,281 | 315,922,774 | 327,436,436 | 11,513,662 |
| Corporate bonds | 248,471,884 | 242,158,692 | -6,313,193 | 248,471,884 | 255,377,864 | 6,905,979 |
| Bond mutual funds | 15,910,682 | 15,430,750 | -479,932 | 15,910,682 | 16,429,945 | 519,263 |
| **Total** | **580,305,341** | **562,800,935** | **-17,504,405** | **580,305,341** | **599,244,245** | **18,938,904** |
| Effect on equity | -17,094,791 | | | 18,489,948 | | |
| Effect on the income statement | -409,615 | | | 448,957 | | |

| (EUR) | 31/12/2017 | | | | | |
|---|---|---|---|---|---|---|
| | + 100 bp | | | - 100 bp | | |
| **Type of security** | **Value** | **Post-stress value** | **Change in value** | **Value** | **Post-stress value** | **Change in value** |
| Government bonds | 310,599,940 | 300,233,681 | -10,366,259 | 310,599,940 | 321,759,952 | 11,160,012 |
| Corporate bonds | 267,662,140 | 259,699,784 | -7,962,356 | 267,662,140 | 276,223,084 | 8,560,944 |
| Bond and mixed mutual funds | 15,615,819 | 15,120,860 | -494,960 | 15,615,819 | 16,148,378 | 532,559 |
| **Total** | **593,877,899** | **575,054,324** | **-18,823,575** | **593,877,899** | **614,131,414** | **20,253,515** |
| Effect on equity | -18,823,575 | | | 20,253,515 | | |
| Effect on the income statement | 0 | | | 0 | | |

The sensitivity analysis of interest rate sensitive life insurance investments showed that in case of an increase in interest rates by one percentage point, the value would decrease by EUR 12.5 million or 3.6% (31/12/2017: EUR 13.4 million; 3.9%). The table below shows in greater detail how the value of investments changes in response to a change in interest rates and the impact on the financial statements, where the impact on equity is a result of available-for-sale investments and the impact on profit or loss a result of investments classified as at fair value through profit or loss.

### Results of the sensitivity analysis on interest-rate sensitive life investments

| (EUR) | 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|
| | + 100 bp | | | - 100 bp | | |
| Type of security | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| Government bonds | 190,893,375 | 183,449,947 | -7,443,428 | 190,893,375 | 198,958,041 | 8,064,666 |
| Corporate bonds | 145,942,873 | 141,414,017 | -4,528,856 | 145,942,873 | 150,780,351 | 4,837,478 |
| Bond, convertible and mixed mutual funds | 13,845,718 | 13,353,595 | -492,123 | 13,845,718 | 14,376,063 | 530,345 |
| **Total** | **350,681,967** | **338,217,558** | **-12,464,407** | **350,681,967** | **364,114,455** | **13,432,489** |
| Effect on equity | -12,360,887 | | | 13,323,787 | | |
| Effect on the income statement | -103,520 | | | 108,701 | | |

| (EUR) | 31/12/2017 | | | | | |
|---|---|---|---|---|---|---|
| | + 100 bp | | | - 100 bp | | |
| Type of security | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| Government bonds | 178,006,349 | 170,712,907 | -7,293,442 | 178,006,349 | 185,911,994 | 7,905,644 |
| Corporate bonds | 154,167,733 | 148,572,565 | -5,595,169 | 154,167,733 | 160,161,454 | 5,993,721 |
| Bond and mixed mutual funds | 12,743,652 | 12,249,189 | -494,464 | 12,743,652 | 13,276,893 | 533,241 |
| **Total** | **344,917,735** | **331,534,662** | **-13,383,074** | **344,917,735** | **359,350,339** | **14,432,606** |
| Effect on equity | -13,210,123 | | | 14,248,903 | | |
| Effect on the income statement | -172,952 | | | 183,703 | | |

* The 2017 figures differ from those published in the 2017 annual report as the investment portfolio includes KSNT investments (life liability fund) for which the insurer provides guaranteed unit values (2017: EUR 1,019.5 million).

The value of the mathematical provision included in the sensitivity analysis on the liabilities side amounted to EUR 252.7 million at 31 December 2018 (31/12/2017: EUR 263.8 million) and did not include the part of mathematical provision that is not interest-sensitive (31/12/2018: EUR 2.1 million, 31/12/2017: EUR 7.6 million). A sensitivity analysis for liabilities (mathematical provisions) showed that if the present value of mathematical provisions is calculated using an interest rate that is one percentage point higher, the mathematical provisions would decrease by EUR 8.6 million, or 3.4%, (31/12/2017: EUR 10.5 million; 4.0%). By contrast, if the provision is calculated using a 1 percentage point lower interest rate, mathematical provisions would increase by EUR 11.8 million, or 4.7%, (31/12/2017: EUR 13.5 million; 5.1%). The sensitivity analysis includes the results of the LAT test set out in section 17.4.26.

### Results of the sensitivity analysis on life insurance liabilities

| 31/12/2018 (EUR) | | | | | |
|---|---|---|---|---|---|
| + 100 bp | | | - 100 bp | | |
| Value of mathematical provision | Post-stress value | Change in value | Value of mathematical provision | Post-stress value | Change in value |
| 252,717,622 | 244,098,550 | -8,619,072 | 252,717,622 | 264,526,969 | 11,809,347 |

| 31/12/2017 (EUR) | | | | | |
|---|---|---|---|---|---|
| + 100 bp | | | - 100 bp | | |
| Value of mathematical provision | Post-stress value | Change in value | Value of mathematical provision | Post-stress value | Change in value |
| 263,841,809 | 253,355,720 | -10,486,089 | 263,841,809 | 277,328,172 | 13,486,363 |

The results of the sensitivity analysis on the assets and liabilities sides show that assets and mathematical provisions are less sensitive to change in interest rates compared to 2017. In 2018, the Company continued matching the maturity of assets and liabilities to minimise the net impact of changes in interest rates on the Group's financial statements. The difference between the average maturity of assets and liabilities separately for life and non-life business is presented below.

The average maturity of bonds and deposits of non-life business was 2.98 years at year-end 2018 (31/12/2017: 3.15 years), while the expected maturity of non-life liabilities was 2.77 years (31/12/2017: 3.18 years).

The average maturity of bonds and deposits of life business was 3.48 years at year-end 2018 (31/12/2017: 3.46 years), while the expected maturity of life liabilities was 4.39 years (31/12/2017: 4.68 years).

In 2018, the value of interest rate sensitive assets increased by EUR 5.8 million, while the value of interest rate sensitive liabilities decreased by EUR 11.1 million. Interest rate risk increased marginally in 2018 compared to 2017.

An increase in interest rates of 100 basis points would result in a net effect in the value of assets and liabilities of EUR 3.8 million (2017: EUR 2.9 million), while a decrease in interest rates of 100 basis points would result in a net effect of -EUR 1.6 million (2017: -EUR 0.9 million). We assess that interest rate risk at the Group and Group company levels is well managed and that the net effect is relatively small compared to the level of assets and liabilities. It is important to note that due to the low interest rate environment, the companies are primarily exposed to reinvestment risk, and this is particularly important for the life insurance segment, which must meet its commitments regarding guaranteed returns over a longer period

### 17.6.3.2.2 Equity risk

Equity risk is the risk that the value of investments will decrease due to fluctuations in equity markets.

Equity risk affects shares, equity mutual funds and mixed mutual funds (in stress tests, we include half of the amount).

To assess the Group's sensitivity of investments to equity risk, we can assume a 10% drop in the value of all equity securities, which would result in a decrease in the value of investments by EUR 1.9 million (31/12/2017: EUR 2.0 million).

**Sensitivity assessment of investments to equity risk**

| (EUR) | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| Value decrease | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| of -10% | 18,549,944 | 16,694,950 | -1,854,994 | 19,842,560 | 17,858,304 | -1,984,256 |

Unlike the bond portfolio, which moves inversely to interest rates, the value of equities and mutual funds changes linearly with stock prices. Thus, a 20% fall in equity prices would reduce the value of investments by EUR 3.7 million (31/12/2017: EUR 4.0 million).

The Sava Re Group's exposure to equity risk declined slightly in 2018 compared to year-end 2017. We assess that the risk remained on the same level as in 2017.

### 17.6.3.2.3 Alternative investment risk

As at 31 December 2018, the Group's alternative investments totalled EUR 25.1 million, comprising infrastructure fund investments and investment property. The risk of alternative investments has been determined based on stressed values as prescribed under Solvency II regulations for the capital adequacy calculation. A drop of 25% was used for investment property, and a drop of 49% for infrastructure funds, since we did not apply a look-through approach to these funds. Thus, the value of both investment types would fall by EUR 7.5 million.

| (EUR) | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| Infrastructure funds | 5,264,540 | 2,684,915 | -2,579,625 | 0 | 0 | 0 |
| Investment property | 20,643,022 | 15,482,267 | -5,160,756 | 15,364,184 | 11,523,138 | -3,841,046 |
| Total | 25,907,562 | 18,167,182 | -7,740,380 | 15,364,184 | 11,523,138 | -3,841,046 |

### 17.6.3.2.4 Currency risk

Currency risk is the risk that changes in exchange rates will decrease foreign-denominated assets or increase liabilities denominated in foreign currencies.

The Sava Re Group manages currency risk through the efforts of each Group member to optimise asset-liability currency matching.

Sava Re is the Sava Re Group member with the largest exposure to currency risk. Currency risk levels for Sava Re are explained in more detail in the notes to the financial statements of Sava Re in section 23.5.3.2.4 "Currency risk".

Other Group companies whose local currency is the euro (companies based in Slovenia, Montenegro and Kosovo) have all liabilities and investments denominated in euro, meaning that these companies are not affected by currency risk. Group companies whose local currency is not the euro (companies based in Croatia, Serbia and North Macedonia), transact most business in their respective local currencies, while due to Group relations, they are to a minor extent subject to euro-related currency risk.

We estimate that currency risk at the Group level remained the same in 2018 compared to 2017 since Sava Re is taking measures to reduce exposure to currency risk.

### 17.6.3.3 Liquidity risk

Liquidity risk is the risk that because of unexpected or unexpectedly high obligations, the Company will suffer a loss when ensuring liquid assets.

Individual Group members manage liquidity risk in line with the guidelines laid down in the liquidity risk management policy of the Sava Re Group. Each Group member carefully plans and monitors the realisation of cash flows (cash inflows and outflows), and in the case of liquidity problems, informs the parent company, which assesses the situation and provides the necessary funds to ensure liquidity.

Liquidity risk assumed by individual Group members is also reduced by regular measurement and monitoring based on selected indicators. An indicator of liquidity risk is the level of maturity matching of financial assets and liabilities.

The table below shows the value of financial investments and technical provisions covering life policies by year based on undiscounted cash flows, while the value of technical provisions covering non-life business is shown by year and expected maturity based on triangular development.

**Maturity profile of financial assets and liabilities**

| (EUR) | Carrying amount as at 31/12/2018 | Callable | Up to 1 year | 1–5 years | Over 5 years | No maturity | Total 31/12/2018 |
|---|---|---|---|---|---|---|---|
| **Financial investments** | **1,079,645,762** | **0** | **225,115,979** | **562,990,227** | **268,284,372** | **56,575,774** | **1,112,966,351** |
| - at fair value through profit or loss | 12,415,676 | | 989,664 | 5,237,686 | 7,535,010 | 1,530,950 | 15,293,310 |
| - held to maturity | 86,796,477 | | 38,765,621 | 42,618,791 | 11,701,569 | | 93,085,982 |
| - loans and deposits | 33,542,347 | | 21,494,670 | 9,637,115 | 1,016,638 | | 32,148,423 |
| - available-for-sale | 946,891,262 | | 163,866,023 | 505,496,635 | 248,031,154 | 55,044,823 | 972,438,636 |
| Reinsurers' share of technical provisions | 27,292,750 | | 15,764,933 | 6,864,689 | 4,663,128 | | 27,292,750 |
| Cash and cash equivalents | 64,657,431 | 31,318,301 | 33,339,131 | | | | 64,657,432 |
| **TOTAL ASSETS** | **1,171,595,943** | **31,318,301** | **274,220,043** | **569,854,916** | **272,947,500** | **56,575,774** | **1,204,916,533** |
| Technical provisions | 920,491,487 | | 444,864,696 | 303,435,220 | 170,194,757 | 1,996,814 | 920,491,487 |
| **TOTAL LIABILITIES** | **920,491,487** | **0** | **444,864,696** | **303,435,220** | **170,194,757** | **1,996,814** | **920,491,487** |
| **Difference** | **251,104,456** | **31,318,301** | **-170,644,653** | **266,419,696** | **102,752,743** | **54,578,960** | **284,425,046** |

Financial investments also include KSNT investments, for which the insurer provides guaranteed return, classified as held-to-maturity assets (EUR 9.7 million) and available-for-sale assets (EUR 61.9 million).

| (EUR) | Carrying amount as at 31/12/2017 | Callable | Up to 1 year | 1–5 years | Over 5 years | No maturity | Total 31/12/2017 |
|---|---|---|---|---|---|---|---|
| **Financial investments** | **1,120,616,508** | **0** | **191,556,193** | **644,852,558** | **259,475,605** | **52,429,676** | **1,148,314,033** |
| - at fair value through profit or loss | 6,613,131 | | 1,625,784 | 2,467,681 | 1,528,861 | 1,219,659 | 6,841,985 |
| - held to maturity | 116,135,943 | | 35,663,910 | 78,635,664 | 11,753,831 | | 126,053,404 |
| - loans and deposits | 41,556,393 | | 36,385,643 | 5,305,157 | 1,726,295 | | 43,417,096 |
| - available-for-sale | 956,311,041 | | 117,880,857 | 558,444,056 | 244,466,618 | 51,210,018 | 972,001,548 |
| Reinsurers' share of technical provisions | 30,787,241 | | 12,380,814 | 9,121,982 | 9,284,445 | | 30,787,241 |
| Cash and cash equivalents | 37,956,119 | 25,972,448 | 11,983,671 | | | | 37,956,119 |
| **TOTAL ASSETS** | **1,189,359,867** | **25,972,448** | **215,920,678** | **653,974,540** | **268,760,050** | **52,429,676** | **1,217,057,393** |
| Subordinated liabilities | | | | | | | 0 |
| Technical provisions | 931,398,362 | | 378,731,057 | 344,027,587 | 204,267,658 | 4,372,060 | 931,398,362 |
| **TOTAL LIABILITIES** | **931,398,362** | **0** | **378,731,057** | **344,027,587** | **204,267,658** | **4,372,060** | **931,398,362** |
| **Difference** | **257,961,505** | **25,972,448** | **-162,810,379** | **309,946,953** | **64,492,392** | **48,057,616** | **285,659,031** |

* The 2017 figures differ from those published in the 2017 annual report as the investment portfolio includes KSNT investments (life liability fund) for which the insurer provides guaranteed unit values.

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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, each EU-based Group company maintains a liquidity buffer of highly liquid assets accounting for at least 15% of its investment portfolio. Highly liquid assets are intended to provide liquidity to meet any extraordinary liquidity requirements and are available on an ongoing basis. The other Group members manage their short-term liquidity requirements through cash in bank accounts and short-term deposits.

Based on the above, we estimate that liquidity risk is well managed both at the Group and individual company level and did not change significantly compared to year-end 2017.

### 17.6.3.4 Credit risk

Credit risk is the risk of default on the obligations of a securities issuer or other counterparty towards the Company.

Assets exposed to credit risk include financial investments (deposit investments, bonds, loans granted, deposits with cedants, and cash and cash equivalents), receivables due from reinsurers and other receivables.

**Exposure to credit risk**

| (EUR) Type of asset | 31/12/2018 Amount | 31/12/2017 Amount |
|---|---|---|
| **Fixed-income investments** | **1,087,727,415** | **1,106,142,951** |
| Debt instruments* | 1,016,794,674 | 1,062,354,485 |
| Deposits with cedants | 6,275,310 | 5,832,347 |
| Cash and cash equivalents** | 64,657,431 | 37,956,119 |
| **Receivables due from reinsurers** | **32,484,675** | **36,624,163** |
| Reinsurers' share of technical provisions | 27,292,750 | 30,787,241 |
| Receivables for shares in claims payments | 5,191,925 | 5,836,922 |
| **Other receivables** | **135,358,086** | **132,618,603** |
| Receivables arising out of primary insurance business | 126,533,761 | 124,324,547 |
| Receivables arising out of co-insurance and reinsurance business (other than receivables for shares in claims) | 643,873 | 360,795 |
| Current tax assets | 169,727 | 17,822 |
| Other receivables | 8,010,725 | 7,915,439 |
| **Total exposure** | **1,255,570,176** | **1,275,385,717** |

* Debt securities also include KSNT investments (life liability fund) for which the insurer guarantees unit values; the figures differ from those provided in the 2017 annual report (2017: EUR 1,019.5 million)
**Investments in cash and cash equivalents also include KSNT investments (life liability fund) for which the insurer guarantees unit values; the figures differ from those provided in the 2017 annual report (2017: EUR 30.7 million).

**Credit risk due to issuer default**

Credit risk for investments is estimated based on two factors:

- credit ratings used in determining credit risk for fixed-income investments[119] and cash assets[120];
- performance indicators for other investments.

Below we set out an assessment of credit risk for fixed-income investments (including debt securities, bank deposits, deposits with cedants, cash and cash equivalents, and loans granted).

**Fixed-income investments by issuer credit rating**

| (EUR) Rated by S&P/Moody's | 31/12/2018 Amount | Composition | 31/12/2017 Amount | Composition | Change |
|---|---|---|---|---|---|
| AAA/Aaa | 280,460,107 | 25.8% | 300,218,053 | 27.1% | -1.4% |
| AA/Aa | 153,116,129 | 14.1% | 147,028,143 | 13.3% | 0.8% |
| A/A | 307,943,183 | 28.3% | 357,835,464 | 32.3% | -4.0% |
| BBB/Baa | 148,814,188 | 13.7% | 121,848,097 | 11.0% | 2.7% |
| Less than BBB/Baa | 87,464,680 | 8.0% | 88,966,300 | 8.0% | 0.0% |
| Not rated | 109,929,129 | 10.1% | 90,246,894 | 8.2% | 1.9% |
| **Total** | **1,087,727,415** | **100.0%** | **1,106,142,951** | **100.0%** | |

* The value of fixed-income investments also includes KSNT investments (life liability fund) for which the insurer guarantees unit values; the amount of fixed-income investments differs from the one stated in the 2017 annual report (EUR 1,019.5 million).

As at 31 December 2018, fixed-income investments rated "A" or better accounted for 68.2 % of the total fixed-income portfolio (31/12/2017: 72.7%). In 2018 the share of the best rated investments remained unchanged from the previous year.

The credit risk due to issuer default also includes concentration risk representing the risk of excessive concentration in a geographic area, economic sector or issuer.

The investment portfolio of the Sava Re Group is reasonably diversified in accordance with local law and Group internal rules in order to avoid large concentration in a certain type of investment, large concentration with any counterparty or economic sector or other potential forms of concentration.

[119] Included are bonds, corporate bonds, deposits, deposits with cedants and loans granted.
[120] This includes cash and demand deposits.

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### Diversification of financial investments by industry

| (EUR) Industry | 31/12/2018 Amount | Composition | 31/12/2017 Amount | Composition | Movement (p.p.) |
|---|---|---|---|---|---|
| Banking | 240,907,376 | 20.7% | 250,920,063 | 21.4% | -0.7 |
| Government | 587,746,852 | 50.5% | 600,050,246 | 51.1% | -0.7 |
| Finance & insurance** | 85,153,194 | 7.3% | 87,365,591 | 7.4% | -0.1 |
| Industry | 63,494,284 | 5.5% | 60,235,446 | 5.1% | 0.3 |
| Consumables | 68,992,263 | 5.9% | 71,649,707 | 6.1% | -0.2 |
| Utilities | 92,186,794 | 7.9% | 88,351,573 | 7.5% | 0.4 |
| Property | 20,643,019 | 1.8% | 15,364,184 | 1.3% | 0.5 |
| Infrastructure | 5,822,426 | 0.5% | 0 | 0.0% | 0.5 |
| **Total** | **1,164,946,208** | **100.0%** | **1,173,936,811** | **100.0%** | |

* The value of fixed-income investments also includes KSNT investments (life liability fund) for which the insurer guarantees unit values; the amount of fixed-income investments differs from the one stated in the 2017 annual report (EUR 1,084.2 million).
**The 2017 figures provided for the finance & insurance industry differ from those published in the 2017 annual report, since investment property is shown under the property industry (EUR 102.7 million).

The Sava Re Group's largest exposure by industry was to the government (31/12/2018: 50.5 %; 31/12/2017: 51.1%), with a notable high diversification by issuer. As at 31 December 2018, the exposure to the banking sector was EUR 240.9 million, representing 20.7% of financial investments (31/12/2017: EUR 250.9 million; 21.4%).

### Diversification of financial investments by region

| (EUR) Region | 31/12/2018 Amount | Composition | 31/12/2017 Amount | Composition | Movement (p.p.) |
|---|---|---|---|---|---|
| Slovenia | 252,539,597 | 21.7% | 284,104,200 | 24.2% | -2.5 |
| EU Member States | 663,797,032 | 57.0% | 658,088,347 | 56.1% | 0.9 |
| Non-EU members | 118,466,264 | 10.2% | 98,345,975 | 8.4% | 1.8 |
| Russia and Asia | 19,402,310 | 1.7% | 20,869,406 | 1.8% | -0.1 |
| Africa and the Middle East | 2,249,205 | 0.2% | 2,134,198 | 0.2% | 0.0 |
| America and Australia | 108,491,799 | 9.3% | 110,394,685 | 9.4% | -0.1 |
| **Total** | **1,164,946,208** | **100.0%** | **1,173,936,810** | **100.0%** | |

* The value of fixed-income investments also includes KSNT investments (life liability fund) for which the insurer guarantees unit values; the amount of fixed-income investments differs from the one stated in the 2017 annual report (EUR 1,084.2 million).

The Group's largest exposure by region is to the EU member states (31/12/2018: 57.0%, 31/12/2017: 56.1 %), with exposure spread between 63 countries. The second largest exposure is to Slovenia-based issuers (31/12/2018: 21.7 %; 31/12/2017: 24.2%) and the exposure to non-EU issuers (31/12/2018: 10.2 %; 31/12/2018: 8.4%). The exposure to other regions remained broadly flat year-on-year.

Exposure to Slovenia decreased by 2.5 percentage points in 2018. The exposure is lower due to maturing securities and the adopted limit system.

### Exposure to Slovenia

| (EUR) Type of investment | 31/12/2018 Amount | Composition | 31/12/2017 Amount | Composition | Movement (p.p.) |
|---|---|---|---|---|---|
| Deposits and CDs | 862,080 | 0.1% | 14,384,909 | 1.2% | -1.2 |
| Government bonds | 155,297,826 | 13.3% | 193,031,289 | 16.4% | -3.1 |
| Corporate bonds | 23,414,814 | 2.0% | 25,584,996 | 2.2% | -0.2 |
| Shares | 15,075,879 | 1.3% | 16,992,679 | 1.4% | -0.2 |
| Mutual funds | 738,415 | 0.1% | 1,286,438 | 0.1% | 0.0 |
| Cash and cash equivalents | 40,608,597 | 3.5% | 21,122,631 | 1.8% | 1.7 |
| Other | 16,541,987 | 1.4% | 11,701,257 | 1.0% | 0.4 |
| **Total** | **252,539,597** | **21.7%** | **284,104,200** | **24.2%** | **-2.5** |

As at 31 December 2018, exposure to the ten largest issuers was EUR 403.5 million, representing 34.7% of financial investments (31/12/2017: EUR 425.1 million; 36.2%). The largest single issuer of securities that the Group is exposed to is the Republic of Slovenia. As at 31 December 2018, the exposure to Slovenian issuers totalled EUR 138.8 million, representing 11.9% of financial investments (31/12/2017: EUR 174.5 million; 14.9%). No other corporate issuer exceeded the 1.9% of financial assets threshold.

We assess that in 2018, the Sava Re Group – by maintaining a large percentage of highly-rated investments, diversification of investments by industry and geography and reducing concentration – managed credit risk well, maintaining it on the same level as in 2017.

**Counterparty default risk**

The Group is also exposed to credit risk in relation to its retrocession programme. As a rule, subsidiaries conclude reinsurance contracts directly with the controlling company. If so required by local regulations, they would also buy reinsurance from the providers of assistance services and from local reinsurers. In such cases, local reinsurers transfer the risks to Sava Re, thus reducing the effective credit risk exposure relating to reinsurers below the one correctly shown according to accounting rules.

As at 31 December 2018, the total exposure of the Group to credit risk relating to reinsurers was EUR 32.5 million (31/12/2017: EUR 36.6 million), of which EUR 27.3 million (31/12/2017: EUR 30.8 million) relate to reinsurers' share of technical provisions and EUR 5.2 million (31/12/2017: EUR 5.8 million) to receivables for reinsurers' and co-insurers' shares in claims. As at 31 December 2018, the Group's total credit risk exposure relating to retrocessionaires represented 1.9% of total assets (31/12/2017: 2.1%).

Retrocession programmes are mostly placed with first-class reinsurers which have an appropriate rating (at least A- according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). Thus, reinsurers rated BBB or better accounted for at least 70% (year-end 2018) and 60% (year-end 2017) of the credit risk exposure relating to reinsurers. When classifying reinsurers by credit rating group, we considered the credit rating of each individual reinsurer, also where the reinsurer is part of a group. Often such reinsurers are unrated subsidiaries, while the parent company has a credit rating. We consider such a treatment conservative, as ordinarily a controlling company takes action if a subsidiary gets into trouble.

The tables below show the receivables ageing analysis, including the above-mentioned receivables for reinsurers' shares in claims.

**Receivables ageing analysis**

| (EUR) 31/12/2018 | Not past due | Past due up to 180 days | Past due more than 180 days | Total |
|---|---|---|---|---|
| Receivables due from policyholders | 42,569,511 | 11,774,547 | 2,150,104 | 56,494,162 |
| Receivables due from insurance intermediaries | 757,823 | 1,224,927 | 30,640 | 2,013,390 |
| Other receivables arising out of primary insurance business | 192,572 | 215,837 | 124,026 | 532,435 |
| Receivables for premiums arising out of assumed reinsurance and co-insurance | 53,846,411 | 7,898,864 | 5,748,499 | 67,493,774 |
| Receivables for reinsurers' shares in claims | 4,248,950 | 586,942 | 356,033 | 5,191,925 |
| Other receivables from co-insurance and reinsurance | 504,830 | 139,043 | 0 | 643,873 |
| Other short-term receivables arising out of insurance business | 1,311,217 | 634,873 | 871,748 | 2,817,838 |
| Short-term receivables arising out of financing | 935,154 | 4,077 | 43,049 | 982,280 |
| Current tax assets | 169,727 | 0 | 0 | 169,727 |
| Other short-term receivables | 3,836,984 | 271,057 | 102,566 | 4,210,607 |
| **Total** | **108,373,179** | **22,750,167** | **9,426,665** | **140,550,011** |

| (EUR) 31/12/2017 | Not past due | Past due up to 180 days | Past due more than 180 days | Total |
|---|---|---|---|---|
| Receivables due from policyholders | 37,365,349 | 9,999,372 | 2,588,030 | 49,952,751 |
| Receivables due from insurance intermediaries | 910,753 | 1,269,562 | 39,911 | 2,220,226 |
| Other receivables arising out of primary insurance business | 106,151 | 66,590 | 5,989 | 178,730 |
| Receivables for premiums arising out of assumed reinsurance and co-insurance | 57,750,077 | 9,206,356 | 5,016,407 | 71,972,840 |
| Receivables for reinsurers' shares in claims | 2,734,526 | 2,580,876 | 521,520 | 5,836,922 |
| Other receivables from co-insurance and reinsurance | 343,008 | 17,787 | 0 | 360,795 |
| Other short-term receivables arising out of insurance business | 1,832,858 | 404,434 | 48,324 | 2,285,616 |
| Short-term receivables arising out of financing | 777,596 | 15,578 | 42,468 | 835,642 |
| Current tax assets | 17,822 | 0 | 0 | 17,822 |
| Other short-term receivables | 4,369,177 | 341,327 | 83,677 | 4,794,181 |
| **Total** | **106,207,317** | **23,901,882** | **8,346,326** | **138,455,525** |

Receivables are discussed in greater detail in note 10.

### 17.6.4 Operational risks

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

Operational risks are not among the Group's most significant risks. Nevertheless, some of them are quite important, especially:

- risk associated with the computer and communication system,
- risk associated with supervision and reporting,
- risk of loss of key, expert and high-potential employees,
- risk of incorrect data input and inadequate documentation,
- risk of damage to physical assets due to natural disaster or fire,
- compliance risk (laws and regulations),
- risk of theft and fraud.

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

For this reason, the Group assesses operational risks qualitatively in the risk register, assessing their frequency and potential financial impact, while the EU-based (re)insurance companies additionally use scenario analysis. Through regular risk assessments, the Group companies obtain insight into the actual level of their exposure to such risks.

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

Group companies have established processes for identifying, measuring, monitoring, managing and reporting on such risks for the effective management of operational risk. Operational risk management processes have been set up also at the Group level and are defined in the operational risk management policy.

The main measures of operational risk management on the individual company and the Group level include:

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

In addition, the Group also manages operational risks through independent oversight implemented by internal audit.

We estimate that the Group's exposure to operational risks in 2018 was medium and remained at the same level as in 2017.

### 17.6.5 Strategic risks

The Group is exposed to a variety of internal and external strategic risks that may have a negative impact on the Group's income or capital adequacy.

The key strategic risks that the Group was exposed to in 2018 primarily include:

- risk of inadequate development strategy,
- risk associated with strategic investments,
- political risk,
- project risk,
- risk of market and economic conditions,
- reputation risk and
- regulatory risk.

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

Therefore, the Group assesses strategic risks qualitatively in the risk register, assessing their frequency and potential financial severity. In addition, key strategic risks are evaluated using qualitative analysis of various scenarios. Based on both analyses combined, an overview is obtained of the extent and changes in the exposure to this type of risk.

We perceived no concentration of strategic risk in 2018.

Group companies mitigate individual strategic risks mainly through preventive measures.

In addition to the competent organisational units in Group companies, it is also the executive management bodies, the risk management committees and the risk management functions that are actively involved in the identification and management of strategic risks. Strategic risks are additionally identified by the Group's risk management committee.

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

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

The Group manages and mitigates regulatory risk by continually monitoring the anticipated legislative changes in all countries where Group companies are established, and by assessing their potential impact on the operations of the Group in the short and long term. All Group companies have established compliance functions to monitor and assess the adequacy and effectiveness of regular procedures and measures taken to remedy any deficiencies in the Group's compliance with the law and regarding other commitments.

We estimate that the Group's exposure to strategic risks in 2018 was medium and remained at the same level as in 2017.

# 17.7 Notes to the consolidated financial statements – statement of financial position

## 1) Intangible assets

### Movement in cost and accumulated amortisation/impairment losses of intangible assets

| (EUR) | Software | Goodwill | Property rights | Deferred acquisition costs | Other intangible assets | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 01/01/2018 | 11,062,977 | 14,548,585 | 0 | 3,883,806 | 15,292,194 | 44,787,562 |
| Additions – acquisition of subsidiary | 410,660 | 14,552,443 | 7,205 | 0 | 0 | 14,970,308 |
| Additions | 1,494,480 | 0 | 35,953 | 339,216 | 314,354 | 2,184,003 |
| Disposals | -30,084 | 0 | 0 | 0 | -175,654 | -205,738 |
| Impairments | 0 | -94,907 | 0 | 0 | 0 | -94,907 |
| Exchange differences | -12,610 | 0 | 0 | 0 | -1 | -12,611 |
| 31/12/2018 | 12,925,423 | 29,006,121 | 43,158 | 4,223,022 | 15,430,893 | 61,628,617 |
| **Accumulated amortisation** | | | | | | |
| 01/01/2018 | 8,074,618 | 0 | 0 | 0 | 14,000,000 | 22,074,618 |
| Additions – acquisition of subsidiary | 366,978 | 0 | 7,205 | 0 | 0 | 374,183 |
| Additions | 1,091,421 | 0 | 0 | 0 | 1,000,000 | 2,091,421 |
| Disposals | -20,899 | 0 | 0 | 0 | 0 | -20,899 |
| Exchange differences | -11,824 | 0 | 0 | 0 | 0 | -11,824 |
| 31/12/2018 | 9,500,294 | 0 | 7,205 | 0 | 15,000,000 | 24,507,499 |
| **Carrying amount as at 01/01/2018** | **2,988,359** | **14,548,585** | **0** | **3,883,806** | **1,292,194** | **22,712,945** |
| **Carrying amount as at 31/12/2018** | **3,425,129** | **29,006,121** | **35,953** | **4,223,022** | **430,893** | **37,121,118** |

| (EUR) | Software | Goodwill | Deferred acquisition costs | Other intangible assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 01/01/2017 | 10,482,029 | 14,548,585 | 3,424,663 | 15,340,708 | 43,795,984 |
| Additions | 1,078,694 | 0 | 0 | 0 | 1,078,694 |
| Disposals | -543,742 | 0 | 459,143 | -48,639 | -133,238 |
| Impairments | 0 | 0 | 0 | 0 | 0 |
| Exchange differences | 45,996 | 0 | 0 | 125 | 46,121 |
| 31/12/2017 | 11,062,977 | 14,548,585 | 3,883,806 | 15,292,194 | 44,787,562 |
| **Accumulated amortisation** | | | | | |
| 01/01/2017 | 7,287,402 | 0 | 0 | 11,000,000 | 18,287,402 |
| Additions | 1,141,649 | 0 | 0 | 3,000,000 | 4,141,649 |
| Disposals | -396,038 | 0 | 0 | 0 | -396,038 |
| Exchange differences | 41,605 | 0 | 0 | 0 | 41,605 |
| 31/12/2017 | 8,074,618 | 0 | 0 | 14,000,000 | 22,074,618 |
| **Carrying amount as at 01/01/2017** | **3,194,627** | **14,548,585** | **3,424,663** | **4,340,708** | **25,508,581** |
| **Carrying amount as at 31/12/2017** | **2,988,359** | **14,548,585** | **3,883,806** | **1,292,194** | **22,712,944** |

In 2018, the Group acquired four companies (TBS Team 24, Sava Penzisko Društvo, Sava Terra and Energoprojekt Garant, the latter being merged with Sava Neživotno Osiguranje (SRB) at the end of the year), while goodwill impairment testing indicated that goodwill impairment losses needed to be recognised for Sava Osiguruvanje (MKD).

The increase in goodwill arising out of the acquisition of Sava Penzisko Društvo and TBS Team 24 is temporary in nature, as the Company will consider reclassifying part of the goodwill to customer lists within one year to allocate the purchase price in accordance with IFRS 3.

### Movement in goodwill

Goodwill relates to the acquisition of the following companies: Sava Neživotno Osiguranje (SRB), Sava Osiguranje (MNE), Zavarovalnica Sava, Sava Agent, Sava Pokojninska, TBS Team 24 and Sava Penzisko Društvo. As at year-end 2018, goodwill totalled EUR 29.0 million (31/12/2017: EUR 14.5 million). Each of the listed companies is treated as a cash-generating unit. The table below shows the value of goodwill for each cash-generating unit.

### Movement in goodwill in 2018

| (EUR) | |
|---|---|
| **Total amount carried over at 31/12/2017** | **14,548,585** |
| **Additions in current year** | **14,552,443** |
| TBS Team 24 | 2,787,676 |
| Sava Neživotno Osiguranje (SRB) | 54,356 |
| Sava Penzisko Društvo | 11,710,411 |
| **Disposals in current year** | **-94,907** |
| Sava Osiguruvanje (MKD) | -94,907 |
| **Balance at 31/12/2018** | **29,006,121** |
| Sava Neživotno Osiguranje (SRB) | 4,565,229 |
| Sava Osiguranje (MNE) | 3,648,534 |
| Zavarovalnica Sava | 4,761,733 |
| Sava Agent | 2,718 |
| Sava Pokojninska | 1,529,820 |
| TBS Team 24 | 2,787,676 |
| Sava Penzisko Društvo | 11,710,411 |

* The increase reflects the acquisition of Energoprojekt Garant.

### Movement in goodwill in 2017

| (EUR) | |
|---|---|
| **Total amount carried over at 31/12/2016** | **14,548,585** |
| **Disposals in current year** | **0** |
| **Balance at 31/12/2017** | **14,548,585** |
| Sava Neživotno Osiguranje (SRB) | 4,510,873 |
| Sava Osiguruvanje (MKD) | 94,907 |
| Sava Osiguranje (MNE) | 3,648,534 |
| Zavarovalnica Sava | 4,761,733 |
| Sava Agent | 2,718 |
| Sava Pokojninska | 1,529,820 |

### Method of calculating value in use

Value in use for each cash-generating unit is calculated using the discounted cash flow method (DCF method). The budget projections of the CGUs and their estimate of the long-term results achievable are used as a starting point. Value in use is determined by reference to free cash flows discounted at an appropriate discount rate.

The discount rate is determined as cost of equity, using the capital asset pricing model (CAPM). It is based on the risk free interest rate, equity risk premium and insurance business prospects. Added is a country risk premium and a smallness factor.

The discount rate is made up of the following:

- The risk-free rate of return is based on the mean yield to maturity of 10-year European government bonds (of only countries with an AAA credit rating). Data is taken from the European Central Bank (Euro-area yield curve), specifically for the period from 1 January 2008 to 31 December 2018 (considered are monthly returns). The risk-free rate of return has been additionally adjusted by the difference in the long-term expected inflation between the European Union and the country in which the assessed company is based.
- The equity risk premium has been taken from the publication of KPMG Netherlands "Equity market risk premium", Research Summary, November 2018. It has been additionally verified using Duff & Phelps "2018 Valuation Handbook, Guide to Cost of Capital" (source: published by the Slovenian Institute of Auditors).
- Tax rates included in the discount rate calculation are the applicable tax rates in individual countries where companies operate.
- Beta has been taken from the InFront Analytics database, separate for life insurers and non-life insurers. A 5-year beta has been taken into account based on weekly yields for European insurance companies.
- Country risk premiums have been estimated taking into account the difference in yields between 10-year European government bonds (European Central Bank data) and yield to maturity of local government bonds for the country in which the assessed company is based. Based on monthly yields, we estimated the country risk premium as the median value of the differences between the two yields for the period from 1 January 2008 to 31 December 2018. For countries where government bond yields were not available, bond yields of countries with a comparable credit rating were taken.

Discount rates used in goodwill impairment testing in 2018

| | Discount factor |
|---|---|
| Sava Neživotno Osiguranje (SRB) | 13.5% |
| Sava Životno Osiguranje (SRB) | 14.2% |
| Sava Osiguranje (MNE) | 13.1% |
| Sava Osiguruvanje (MKD) | 12.7% |
| Illyria | 13.2% |
| Illyria Life | 14.0% |
| Sava Penzisko Društvo | 13.6% |
| Sava Pokojninska | 11.4% |
| TBS Team 24 | 17.4% |

The bases for the testing of value in use are prepared in several phases. In phase one, the Company prepares three- or five-year projections of performance results for each company as part of the regular planning process unified Group-wide. These strategic plans are approved by the controlling company and relevant governance body. Based on such medium-term plans, the controlling company then makes extrapolations for those companies for which it is reasonable to assume that a normal volume of business has not yet been achieved (one where the capital required for an insurance company to operate under local regulations would be fully engaged and the minimum capital calculation using premium or loss ratios larger or equal to the lower limit of prescribed capital). In all their markets, insurance penetration (gross premiums written to gross domestic product) is relatively low. However, insurance penetration is expected to increase significantly due to the expected convergence of their countries' macroeconomic indicators towards EU levels. Western Balkan markets, which have a relatively low penetration level, are expected to see a faster growth of gross premiums compared to the expected growth in GDP.

To estimate the residual value used in the calculation of the estimated value of equity, the calculation considers normalised cash flow in the last year of the forecast made using the Gordon growth model, where the expected long-term growth rate of net cash flow (g) generally does not exceed the long-term inflation rate expected for a market.

## Goodwill impairment testing

In the impairment testing of goodwill arising out of the acquired companies listed at the beginning of this section, the recoverable amount of each cash-generating unit exceeded its carrying amount including goodwill belonging to the unit, except with Sava Osiguruvanje (MKD) for which goodwill impairment losses totalled EUR 94,907.

## 2) Property, plant and equipment

Movement in cost and accumulated depreciation/impairment losses of property, plant and equipment assets

| (EUR) | Land | Buildings | Equipment | Other property, plant and equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 01/01/2018 | 7,834,841 | 49,629,117 | 23,976,932 | 242,407 | 81,683,298 |
| Additions – acquisition of subsidiary | 0 | 0 | 288,219 | 252,927 | 541,146 |
| Additions | 134,370 | 226,051 | 2,369,932 | 79,466 | 2,809,819 |
| Reallocations | 5,811 | 602,629 | -67,518 | -32,885 | 508,037 |
| Disposals | -3,931 | -215,910 | -2,202,870 | -77,718 | -2,500,429 |
| Impairment | -346,445 | -2,201,472 | 0 | 0 | -2,547,917 |
| Exchange differences | 3,123 | -8,335 | 145 | 192 | -4,875 |
| 31/12/2018 | 7,627,768 | 48,032,080 | 24,364,840 | 464,389 | 80,489,079 |
| **Accumulated depreciation** | | | | | |
| 01/01/2018 | 0 | 17,924,007 | 18,243,994 | 77,283 | 36,245,284 |
| Additions – acquisition of subsidiary | 0 | 0 | 235,444 | 146,417 | 381,861 |
| Additions | 0 | 1,285,348 | 1,829,177 | 48,064 | 3,162,589 |
| Reallocations | 0 | -28,177 | -45,756 | -3,220 | -77,153 |
| Disposals | 0 | -112,469 | -1,935,825 | -62,865 | -2,111,159 |
| Exchange differences | 0 | -5,316 | -460 | 1 | -5,775 |
| 31/12/2018 | 0 | 19,063,393 | 18,326,574 | 205,680 | 37,595,647 |
| **Carrying amount as at 01/01/2018** | **7,834,841** | **31,705,110** | **5,732,938** | **165,124** | **45,438,014** |
| **Carrying amount as at 31/12/2018** | **7,627,768** | **28,968,687** | **6,038,266** | **258,709** | **42,893,432** |

| (EUR) | Land | Buildings | Equipment | Other property, plant and equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 01/01/2017 | 8,030,475 | 54,625,070 | 24,272,128 | 218,004 | 87,145,677 |
| Additions – acquisition of subsidiary | 0 | 0 | 0 | 0 | 0 |
| Additions | 90,522 | 3,048,978 | 1,937,007 | 28,133 | 5,104,640 |
| Reallocations | -280,665 | -7,393,827 | 0 | 0 | -7,674,492 |
| Disposals | -5,490 | -205,855 | -2,299,881 | -7,733 | -2,518,959 |
| Impairment | 0 | -617,045 | 0 | 0 | -617,045 |
| Exchange differences | 0 | 171,796 | 67,678 | 4,003 | 243,477 |
| 31/12/2017 | 7,834,841 | 49,629,117 | 23,976,932 | 242,407 | 81,683,298 |
| **Accumulated depreciation** | | | | | |
| 01/01/2017 | 0 | 17,107,342 | 18,072,626 | 78,583 | 35,258,551 |
| Additions | 0 | 0 | 0 | 0 | 0 |
| Reallocations | 0 | 1,229,690 | 2,078,597 | 4,357 | 3,312,644 |
| Disposals | 0 | -246,361 | 0 | 0 | -246,361 |
| Impairment | 0 | -212,715 | -1,953,210 | -5,737 | -2,171,662 |
| Exchange differences | 0 | 46,051 | 45,981 | 80 | 92,112 |
| 31/12/2017 | 0 | 17,924,007 | 18,243,994 | 77,283 | 36,245,284 |
| **Carrying amount as at 01/01/2017** | **8,030,475** | **37,517,728** | **6,199,502** | **139,421** | **51,887,127** |
| **Carrying amount as at 31/12/2017** | **7,834,841** | **31,705,110** | **5,732,938** | **165,124** | **45,438,014** |

Impairment losses on land and buildings of EUR 2.5 million relate to a recognised impairment made following the independent appraisal of an own use property in Serbia.

Property, plant and equipment assets have not been acquired by finance lease and are unencumbered by third-party rights.

The fair values of land and buildings are disclosed in note 27 "Fair values of assets and liabilities".

### 3) Deferred tax assets and liabilities

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Deferred tax assets | 1,950,245 | 2,107,564 |
| Deferred tax liabilities | -3,529,235 | -5,781,494 |
| **Total net deferred tax assets/liabilities** | **-1,578,990** | **-3,673,930** |

#### Movement in deferred tax assets

| (EUR) | 01/01/2018 | Recognised in the IS | Recognised in the SOCI | 31/12/2018 |
|---|---|---|---|---|
| Long-term financial investments | 1,050,453 | 281,701 | 244,858 | 1,577,012 |
| Short-term operating receivables | 356,676 | -24,331 | 0 | 332,345 |
| Provisions for jubilee benefits and severance pay (retirement) | 700,435 | -637,980 | -21,567 | 40,888 |
| **Total** | **2,107,564** | **-380,610** | **223,291** | **1,950,245** |

| (EUR) | 01/01/2017 | Recognised in the IS | Recognised in the SOCI | 31/12/2017 |
|---|---|---|---|---|
| Long-term financial investments | 1,386,480 | -330,922 | -5,105 | 1,050,453 |
| Short-term operating receivables | 239,298 | 117,378 | 0 | 356,676 |
| Provisions for jubilee benefits and severance pay (retirement) | 700,285 | 70,374 | -70,224 | 700,435 |
| **Total** | **2,326,063** | **-143,170** | **-75,329** | **2,107,564** |

#### Movement in deferred tax liabilities

| (EUR) | 01/01/2018 | Recognised in the IS | Recognised in the SOCI | Acquisition, subsidiary | 31/12/2018 |
|---|---|---|---|---|---|
| Long-term financial investments | -5,781,494 | 944,527 | 1,458,876 | -151,144 | -3,529,235 |

| (EUR) | 01/01/2017 | Recognised in the IS | Recognised in the SOCI | 31/12/2017 |
|---|---|---|---|---|
| Long-term financial investments | -6,038,631 | 230,524 | 26,613 | -5,781,494 |

### 4) Investment property

Movement in cost and accumulated depreciation of investment property

| (EUR) | Land | Buildings | Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| 01/01/2018 | 2,557,131 | 13,922,645 | 0 | 16,479,776 |
| Additions – acquisition of subsidiary | 0 | 6,598,556 | 0 | 6,598,556 |
| Additions | 0 | 289,546 | 63,116 | 352,662 |
| Reallocations | -5,811 | -602,629 | 100,403 | -508,037 |
| Disposals | -70,346 | -101,209 | -13,316 | -184,871 |
| Exchange differences | 1,949 | 6,008 | 0 | 7,957 |
| 31/12/2018 | 2,482,923 | 20,112,917 | 150,203 | 22,746,043 |
| **Accumulated depreciation** | | | | |
| 01/01/2018 | 28,790 | 1,086,802 | 0 | 1,115,592 |
| Additions – acquisition of subsidiary | 0 | 704,001 | 0 | 704,001 |
| Additions | 0 | 206,949 | 12,137 | 219,086 |
| Reallocations | 0 | 28,177 | 48,976 | 77,153 |
| Disposals | 0 | -34,326 | -13,302 | -47,628 |
| Impairment | 0 | 34,509 | 0 | 34,509 |
| Exchange differences | -183 | 494 | 0 | 311 |
| 31/12/2018 | 28,607 | 2,026,606 | 47,811 | 2,103,024 |
| **Carrying amount as at 01/01/2018** | **2,528,341** | **12,835,844** | **0** | **15,364,184** |
| **Carrying amount as at 31/12/2018** | **2,454,316** | **18,086,311** | **102,392** | **20,643,019** |

| (EUR) | Land | Buildings | Total |
|---|---|---|---|
| **Cost** | | | |
| 01/01/2017 | 775,979 | 7,848,997 | 8,624,976 |
| Additions | 8,467 | 664,945 | 673,412 |
| Reallocations | 1,772,412 | 5,829,584 | 7,601,996 |
| Impairment | 0 | -546,740 | -546,740 |
| Exchange differences | 273 | 125,859 | 126,132 |
| 31/12/2017 | 2,557,131 | 13,922,645 | 16,479,776 |
| **Accumulated depreciation** | | | |
| 01/01/2017 | 28,517 | 662,673 | 691,190 |
| Additions | 0 | 168,444 | 168,444 |
| Reallocations | 0 | 246,361 | 246,361 |
| Exchange differences | 273 | 9,324 | 9,597 |
| 31/12/2017 | 28,790 | 1,086,802 | 1,115,592 |
| **Carrying amount as at 01/01/2017** | **747,462** | **7,186,324** | **7,933,786** |
| **Carrying amount as at 31/12/2017** | **2,528,341** | **12,835,844** | **15,364,184** |

The increase in investment property assets is a result of the acquisition of Sava Terra and Energoprojekt Garant (subsequently merged with Sava Neživotno Osiguranje) in the amount of EUR 5.8 million and new purchases recognised of EUR 0.3 million.

No impairment losses on buildings were recognised in 2018; the impairment loss of EUR 0.5 million recognised in 2017 related to impairment after an independent valuation in Serbia.

In 2018 the Group generated income of EUR 1,146,475 by leasing out its investment property (2017: EUR 514,115). Maintenance costs associated with investment property are either included in the rent or charged to the lessee. Costs covered by the Group in 2018 totalled EUR 201,368 (2017: EUR 166,161).

The Group's investment properties are unencumbered by any third-party rights.

The fair values of investment property are disclosed in note 27 "Fair values of assets and liabilities".

### 5) Financial investments in associates

| (EUR) | 01/01/2018 | | Additions | | Attributed profit or loss | 31/12/2018 | | Share of voting rights (%) |
|---|---|---|---|---|---|---|---|---|
| | Holding | Value | Holding | Value | | Holding | Value | |
| ZTSR | 0.00% | 0 | 50.00% | 125,000 | -22,440 | 50.00% | 102,560 | 50.00% |
| G2I | 0.00% | 0 | 17.50% | 394,197 | -33,784 | 17.50% | 360,414 | 25.00% |
| **Total** | | **0** | | **519,197** | **-56,224** | | **462,974** | |

| (EUR) | 31/12/2018 |
|---|---|
| **ZTSR** | |
| Value of assets | 220,564 |
| Liabilities | 15,444 |
| Equity | 205,120 |
| Income | 0 |
| Net profit or loss for the period | -44,880 |
| Part of the profit or loss attributable to the Group | -22,440 |
| **G2I** | |
| Value of assets | 813,069 |
| Liabilities | 5,266 |
| Equity | 807,803 |
| Income | 121 |
| Net profit or loss for the period | -193,050 |
| Part of the profit or loss attributable to the Group | -33,784 |

### 6) Financial investments

| (EUR) 31/12/2018 | Held-to-maturity | At fair value through P/L Non-derivative Designated to this category | Available-for-sale | Loans and receivables | Total |
|---|---|---|---|---|---|
| **Debt instruments** | **77,122,037** | **10,884,728** | **833,260,563** | **27,267,037** | **948,534,365** |
| Deposits and CDs | 0 | 1,589,488 | 0 | 26,150,797 | 27,740,285 |
| Government bonds | 75,748,901 | 350,731 | 474,616,968 | 0 | 550,716,600 |
| Corporate bonds | 1,373,136 | 8,944,509 | 358,643,595 | 0 | 368,961,240 |
| Loans granted | 0 | 0 | 0 | 1,116,240 | 1,116,240 |
| **Equity instruments** | **0** | **1,530,948** | **46,492,307** | **0** | **48,023,255** |
| Shares | 0 | 527,569 | 15,148,047 | 0 | 15,675,616 |
| Mutual funds | 0 | 1,003,379 | 31,344,260 | 0 | 32,347,639 |
| **Investments in infrastructure funds** | **0** | **0** | **5,264,540** | | **5,264,540** |
| **Financial investments of reinsurers i.r.o. reinsurance contracts with cedants** | **0** | **0** | **0** | **6,275,310** | **6,275,310** |
| **Total** | **77,122,037** | **12,415,676** | **885,017,410** | **33,542,347** | **1,008,097,470** |

| (EUR) 31/12/2017 | Held-to-maturity | At fair value through P/L Non-derivative Designated to this category | Available-for-sale | Loans and receivables | Total |
|---|---|---|---|---|---|
| **Debt instruments** | **106,232,327** | **4,998,211** | **849,482,348** | **22,197,196** | **982,910,082** |
| Deposits and CDs | 0 | 0 | 0 | 21,605,211 | 21,605,211 |
| Government bonds | 106,033,885 | 1,479,811 | 459,002,227 | 0 | 566,515,923 |
| Corporate bonds | 198,442 | 3,518,400 | 390,480,121 | 0 | 394,196,963 |
| Loans granted | 0 | 0 | 0 | 591,985 | 591,985 |
| **Equity instruments** | **0** | **1,219,659** | **48,162,931** | **0** | **49,382,590** |
| Shares | 0 | 561,191 | 16,963,643 | 0 | 17,524,834 |
| Mutual funds | 0 | 658,468 | 31,199,288 | 0 | 31,857,756 |
| **Financial investments of reinsurers i.r.o. reinsurance contracts with cedants** | **0** | **0** | **0** | **5,832,347** | **5,832,347** |
| **Total** | **106,232,327** | **6,217,870** | **897,645,279** | **28,029,543** | **1,038,125,019** |

The Sava Re Group held 0.8% of financial investments constituting subordinated instruments for the issuer (31/12/2017: 0.2%).

No securities have been pledged as security by the Group.

Fair values of financial investments are shown in note 27.

### 7) Funds for the benefit of policyholders who bear the investment risk

| (EUR) 31/12/2018 | Held-to-maturity | At fair value through P/L Non-derivative Designated to this category | Available-for-sale | Loans and receivables | Total |
|---|---|---|---|---|---|
| Investments for the benefit of life-insurance policyholders who bear the investment risk | 9,674,439 | 133,270,213 | 61,873,852 | 0 | 204,818,504 |

| (EUR) 31/12/2017 | Held-to-maturity | At fair value through P/L Non-derivative Designated to this category | Available-for-sale | Loans and receivables | Total |
|---|---|---|---|---|---|
| Investments for the benefit of life-insurance policyholders who bear the investment risk | 9,903,616 | 145,131,820 | 58,665,766 | 13,526,851 | 227,228,053 |

Investments for the benefit of life-insurance policyholders who bear the investment risk are investments placed by the Group insurer in line with requests of life insurance policyholders.

### 8) Reinsurers' share of technical provisions

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| From unearned premiums | 5,796,346 | 8,826,773 |
| From provisions for claims outstanding | 21,496,404 | 21,960,468 |
| **Total** | **27,292,750** | **30,787,241** |

The reinsurers' and coinsurers' share of technical provisions fell by 11.4%, or EUR 3.5 million.

The largest contribution to the 34.3% decline in unearned premiums is the change in assistance business previously conducted through a reinsurance arrangement with an assistance provider. In 2018, however, the Group started using its own assistance network and stopped paying reinsurance premiums to the assistance provider, as a result of which no further unearned reinsurance premiums were set aside in this regard.

The reinsurers' share of claims provisions depends on the movement of large incurred claims, covered by the reinsurance programme, and the schedule of their related claim payments. In 2018, the reinsurers' share of claims provisions dropped by 2.1%. This is because the additions made for the motor liability excess of loss cover for the Group portfolio and the inwards property excess of loss cover relating to typhoon Jebi in Japan were offset by a decrease due to pay-outs and releases of retroceded provisions of the previous year relating to individual property claims on the Group and non-Group portfolios and due to the mentioned change in conducting assistance business.

### 9) Investment contract assets and liabilities

As at the end of 2015, the controlling company acquired the Sava Pokojninska pension company, previously accounted for as an associate. The Group had EUR 135.6 million (2017: EUR 129.6 million) of assets and EUR 135.4 million (2017: EUR 129.5 million) of investment contract liabilities. The Group's investment contracts include a group of life cycle funds called MOJI skladi življenjskega cikla (MY life-cycle funds), relating to supplementary pension business of the company Sava Pokojninska in the accumulation phase. Sava Pokojninska started managing the group of long-term business funds MOJI skladi življenjskega cikla on 1 January 2016. They comprise three funds: MOJ dinamični sklad (MY Dynamic Fund), and MOJ uravnoteženi sklad (MY Balanced Fund), and MOJ zajamčeni sklad (MY Guaranteed Fund). Further details on the risks associated with investment contracts are provided in section 17.7.2 "Investment contract risk".

**Investment contract assets**

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Financial investments | 115,619,693 | 114,570,149 |
| Investment property | 490,000 | 490,000 |
| Receivables | 8,940 | 9,525 |
| Cash and cash equivalents | 19,468,332 | 14,552,458 |
| **Total** | **135,586,965** | **129,622,131** |

| (EUR) 31/12/2018 | Held to maturity | At fair value through P/L – Non-derivative – Designated to this category | Loans and receivables | Investment property | Total |
|---|---|---|---|---|---|
| Debt instruments | 50,552,225 | 48,429,039 | 0 | 0 | 98,981,264 |
| Equity instruments | 0 | 16,638,522 | 0 | 0 | 16,638,522 |
| **Total financial investments** | **50,552,225** | **65,067,561** | **0** | **0** | **115,619,786** |
| Cash and receivables | 0 | 0 | 19,477,179 | 0 | 19,477,179 |
| Investment property | 0 | 0 | 0 | 490,000 | 490,000 |
| **Total assets from investment contracts** | **50,552,225** | **65,067,561** | **19,477,179** | **490,000** | **135,586,965** |

| (EUR) 31/12/2017 | Held to maturity | At fair value through P/L – Non-derivative – Designated to this category | Loans and receivables | Investment property | Total |
|---|---|---|---|---|---|
| Debt instruments | 46,485,779 | 50,692,041 | 0 | 0 | 97,177,820 |
| Equity instruments | 0 | 17,392,329 | 0 | 0 | 17,392,329 |
| **Total financial investments** | **46,485,779** | **68,084,370** | **0** | **0** | **114,570,149** |
| Cash and receivables | 0 | 0 | 14,561,982 | 0 | 14,561,982 |
| Investment property | 0 | 0 | 0 | 490,000 | 490,000 |
| **Total assets from investment contracts** | **46,485,779** | **68,084,370** | **14,561,982** | **490,000** | **129,622,131** |

### Assets from investment contracts by level of the fair value hierarchy

| 31/12/2018 | Carrying amount (CA) | Fair value | | | | Difference between FV and CA |
|---|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total fair value | |
| **Assets from investment contracts measured at fair value** | **65,067,561** | **50,649,029** | **13,515,166** | **903,365** | **65,067,561** | **0** |
| **At fair value through P/L** | **65,067,561** | **50,649,029** | **13,515,166** | **903,365** | **65,067,561** | **0** |
| **Designated to this category** | **65,067,561** | **50,649,029** | **13,515,166** | **903,365** | **65,067,561** | **0** |
| Deposits and CDs | 48,429,039 | 34,401,477 | 13,124,196 | 903,365 | 48,429,039 | 0 |
| Bonds | 16,638,522 | 16,247,552 | 390,970 | | 16,638,522 | 0 |
| **Assets from investment contracts not measured at fair value** | **70,029,404** | **34,180,466** | **41,799,071** | **0** | **75,979,538** | **5,950,133** |
| **Held-to-maturity assets** | **50,552,225** | **14,703,287** | **41,799,071** | **0** | **56,502,358** | **5,950,133** |
| Debt instruments | 50,552,225 | 14,703,287 | 41,799,071 | 0 | 56,502,358 | 5,950,133 |
| **Cash and receivables** | **19,477,179** | **19,477,179** | **0** | | **19,477,179** | **0** |
| **Investment property** | **490,000** | **0** | **0** | **490,000** | **490,000** | **0** |
| **Total assets from investment contracts** | **135,586,965** | **84,829,495** | **55,314,237** | **1,393,365** | **141,537,098** | **5,950,133** |

| 31/12/2017 | Carrying amount (CA) | Fair value | | | | Difference between FV and CA |
|---|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total fair value | |
| **Assets from investment contracts measured at fair value** | **68,084,370** | **60,081,352** | **6,639,354** | **1,363,664** | **68,084,370** | **0** |
| **At fair value through P/L** | **68,084,370** | **60,081,352** | **6,639,354** | **1,363,664** | **68,084,370** | **0** |
| **Designated to this category** | **68,084,370** | **60,081,352** | **6,639,354** | **1,363,664** | **68,084,370** | **0** |
| Deposits and CDs | 50,692,041 | 42,901,893 | 6,426,484 | 1,363,664 | 50,692,041 | 0 |
| Bonds | 17,392,329 | 17,179,459 | 212,870 | 0 | 17,392,329 | 0 |
| **Assets from investment contracts not measured at fair value** | **61,047,762** | **47,017,167** | **21,720,548** | **0** | **68,737,715** | **7,689,954** |
| **Held-to-maturity assets** | **46,485,779** | **32,455,184** | **21,720,548** | **0** | **54,175,733** | **7,689,954** |
| Debt instruments | 46,485,779 | 32,455,184 | 21,720,548 | 0 | 54,175,733 | 7,689,954 |
| **Cash and receivables** | **14,561,982** | **14,561,982** | **0** | **0** | **14,561,982** | **0** |
| **Investment property** | **490,000** | **0** | **0** | **490,000** | **490,000** | **0** |
| **Total assets from investment contracts** | **129,622,131** | **107,098,519** | **28,359,902** | **1,853,664** | **137,312,085** | **7,689,954** |

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**Investment contract liabilities**

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Net liabilities to pension policyholders | 134,926,064 | 128,862,922 |
| Other liabilities | 613,674 | 759,210 |
| **TOTAL IN LIABILITY FUND OF VSPI BALANCE SHEET** | **135,539,738** | **129,622,132** |
| Internal relations between the company and life ins. liability fund | -98,231 | -139,098 |
| **TOTAL IN BALANCE SHEET** | **135,441,508** | **129,483,034** |

**Movement in investments, and income and expenses relating to investment contract assets measured at fair value – Level 3**

| (EUR) | Debt instruments | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| **Opening balance** | **1,363,664** | **1,431,632** |
| Additions | 913,701 | 1,363,664 |
| Disposal | 0 | -316,429 |
| Maturity | -1,374,000 | -1,115,203 |
| **Closing balance** | **903,365** | **1,363,664** |
| Income | 15,610 | 17,410 |
| Expenses | 0 | -163 |

The pension company eliminates internal relations of the joint balance sheet, thus liabilities to pension policyholders exceed liabilities from investment contracts. Internal transactions between the group of My-Life-cycle long-term business funds and the pension company were eliminated in the balance sheet. These include entry charges and management fees for the current month, which may be recognised upon conversion or when credited to personal accounts.

Liabilities in the balance sheet of the long-term liability fund of the voluntary supplementary pension insurance are mostly long-term. These are liabilities relating to the voluntary supplementary pension life liability fund for premiums paid, guaranteed return and the return in excess of guaranteed return (provisions).

## 10) Receivables

Receivables increased by EUR 2.1 million compared to year-end 2017.

This increase mostly stemmed from the non-life segment as a result of growth in gross premiums written, which had an effect on the total increase of this item. In the ageing analysis, the largest increase was in not-past-due receivables arising out of primary insurance business.

By contrast, receivables arising out of reinsurance and co-insurance business declined by EUR 0.4 million.

Receivables of the controlling company arising out of reinsurance contracts are not specially secured. Receivables have been tested for impairment.

**Receivables by type**

| (EUR) | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Allowance | Receivables | Gross amount | Allowance | Receivables |
| Receivables due from policyholders | 147,595,873 | -23,607,937 | 123,987,936 | 148,688,925 | -26,763,334 | 121,925,591 |
| Receivables due from insurance intermediaries | 3,085,381 | -1,071,991 | 2,013,390 | 3,117,305 | -897,079 | 2,220,226 |
| Other receivables arising out of primary insurance business | 662,312 | -129,877 | 532,435 | 311,426 | -132,696 | 178,730 |
| **Receivables arising out of primary insurance business** | **151,343,566** | **-24,809,805** | **126,533,761** | **152,117,656** | **-27,793,109** | **124,324,547** |
| Receivables for shares in claims payments | 5,368,904 | -176,979 | 5,191,925 | 6,013,897 | -176,975 | 5,836,922 |
| Other receivables from co-insurance and reinsurance | 643,873 | 0 | 643,873 | 360,795 | 0 | 360,795 |
| **Receivables arising out of reinsurance and co-insurance business** | **6,012,777** | **-176,979** | **5,835,798** | **6,374,692** | **-176,975** | **6,197,717** |
| Current tax assets | 169,727 | 0 | 169,727 | 17,822 | 0 | 17,822 |
| Other short-term receivables arising out of insurance business | 21,724,100 | -18,906,262 | 2,817,838 | 22,890,785 | -20,605,169 | 2,285,616 |
| Receivables arising out of investments | 2,222,130 | -1,239,850 | 982,280 | 2,047,648 | -1,212,006 | 835,642 |
| Other receivables | 5,591,808 | -1,381,201 | 4,210,607 | 6,231,887 | -1,437,706 | 4,794,181 |
| **Other receivables** | **29,538,038** | **-21,527,313** | **8,010,725** | **31,170,320** | **-23,254,881** | **7,915,439** |
| **Total** | **187,064,108** | **-46,514,097** | **140,550,011** | **189,680,490** | **-51,224,965** | **138,455,525** |

## Net receivables ageing analysis

| (EUR) 31/12/2018 | Not past due | Past due up to 180 days | Past due more than 180 days | Total |
|---|---|---|---|---|
| Receivables due from policyholders | 96,415,922 | 19,673,411 | 7,898,603 | 123,987,936 |
| Receivables due from insurance intermediaries | 757,823 | 1,224,927 | 30,640 | 2,013,390 |
| Other receivables arising out of primary insurance business | 192,572 | 215,837 | 124,026 | 532,435 |
| **Receivables arising out of primary insurance business** | **97,366,317** | **21,114,175** | **8,053,269** | **126,533,761** |
| Receivables for reinsurers' shares in claims | 4,248,950 | 586,942 | 356,033 | 5,191,925 |
| Other receivables from co-insurance and reinsurance | 504,830 | 139,043 | 0 | 643,873 |
| **Receivables arising out of reinsurance and co-insurance business** | **4,753,780** | **725,985** | **356,033** | **5,835,798** |
| **Current tax assets** | **169,727** | **0** | **0** | **169,727** |
| Other short-term receivables arising out of insurance business | 1,311,217 | 634,873 | 871,748 | 2,817,838 |
| Short-term receivables arising out of financing | 935,154 | 4,077 | 43,049 | 982,280 |
| Other short-term receivables | 3,836,984 | 271,057 | 102,566 | 4,210,607 |
| **Other receivables** | **6,083,355** | **910,007** | **1,017,363** | **8,010,725** |
| **Total** | **108,373,179** | **22,750,167** | **9,426,665** | **140,550,011** |

| (EUR) 31/12/2017 | Not past due | Past due up to 180 days | Past due more than 180 days | Total |
|---|---|---|---|---|
| Receivables due from policyholders | 95,115,426 | 19,205,728 | 7,604,437 | 121,925,591 |
| Receivables due from insurance intermediaries | 910,753 | 1,269,562 | 39,911 | 2,220,226 |
| Other receivables arising out of primary insurance business | 106,151 | 66,590 | 5,989 | 178,730 |
| **Receivables arising out of primary insurance business** | **96,132,330** | **20,541,880** | **7,650,337** | **124,324,547** |
| Receivables for reinsurers' shares in claims | 2,734,526 | 2,580,876 | 521,520 | 5,836,922 |
| Other receivables from co-insurance and reinsurance | 343,008 | 17,787 | 0 | 360,795 |
| **Receivables arising out of reinsurance and co-insurance business** | **3,077,534** | **2,598,663** | **521,520** | **6,197,717** |
| **Current tax assets** | **17,822** | **0** | **0** | **17,822** |
| Other short-term receivables arising out of insurance business | 1,832,858 | 404,434 | 48,324 | 2,285,616 |
| Short-term receivables arising out of financing | 777,596 | 15,578 | 42,468 | 835,642 |
| Other short-term receivables | 4,369,177 | 341,327 | 83,677 | 4,794,181 |
| **Other receivables** | **6,979,631** | **761,339** | **174,469** | **7,915,439** |
| **Total** | **106,207,317** | **23,901,882** | **8,346,326** | **138,455,525** |

All receivables are current. For all receivables that have already fallen due, allowances have been recognised relating to individual classes of similar risks into which receivables are classified. Major items of receivables have been tested individually and since only minor indications of impairment have been found, these are included in collective impairment.

The Group's other short-term receivables arising out of insurance business comprise recourse receivables.

### Movement in allowance for receivables

| (EUR) 31/12/2018 | 01/01/2018 | Additions | Collection | Write-offs | Exchange differences | 31/12/2018 |
|---|---|---|---|---|---|---|
| Receivables due from policyholders | -26,763,334 | -1,214,542 | 684,003 | 3,680,207 | 5,729 | -23,607,937 |
| Receivables due from insurance intermediaries | -897,079 | -265,231 | 81,949 | 8,382 | -12 | -1,071,991 |
| Other receivables arising out of primary insurance business | -132,696 | -6,643 | 8,621 | 0 | 841 | -129,877 |
| **Receivables arising out of primary insurance business** | **-27,793,109** | **-1,486,416** | **774,573** | **3,688,589** | **6,558** | **-24,809,805** |
| Receivables for shares in claims payments | -176,975 | 0 | 0 | 0 | -4 | -176,979 |
| **Receivables arising out of reinsurance and co-insurance business** | **-176,975** | **0** | **0** | **0** | **-4** | **-176,979** |
| Other short-term receivables arising out of insurance business | -20,605,169 | -276,336 | 4,646 | 1,957,362 | 13,235 | -18,906,262 |
| Receivables arising out of investments | -1,212,006 | -27,058 | 0 | 0 | -786 | -1,239,850 |
| Other short-term receivables | -1,437,706 | -27,429 | 39,970 | 44,708 | -744 | -1,381,201 |
| **Other receivables** | **-23,254,881** | **-330,823** | **44,616** | **2,002,070** | **11,705** | **-21,527,313** |
| **Total** | **-51,224,965** | **-1,817,239** | **819,189** | **5,690,659** | **18,259** | **-46,514,097** |

| (EUR) 01/01/2017 | 01/01/2017 | Transfer | Additions | Collection | Write-offs | Exchange differences | 31/12/2017 |
|---|---|---|---|---|---|---|---|
| Receivables due from policyholders | -28,295,242 | -427,794 | -315,812 | 425,101 | 1,915,394 | -64,981 | -26,763,334 |
| Receivables due from insurance intermediaries | -636,693 | 0 | -271,945 | 17,670 | 7,897 | -14,008 | -897,079 |
| Other receivables arising out of primary insurance business | -134,423 | 0 | -3,343 | 6,341 | 0 | -1,271 | -132,696 |
| **Receivables arising out of primary insurance business** | **-29,066,358** | **-427,794** | **-591,100** | **449,112** | **1,923,291** | **-80,260** | **-27,793,109** |
| Receivables for premiums arising out of reinsurance and co-insurance | -427,794 | 427,794 | 0 | 0 | 0 | 0 | 0 |
| Receivables for shares in claims payments | -76,896 | 0 | -100,000 | 0 | 0 | -79 | -176,975 |
| **Receivables arising out of reinsurance and co-insurance business** | **-504,690** | **427,794** | **-100,000** | **0** | **0** | **-79** | **-176,975** |
| Other short-term receivables arising out of insurance business | -21,985,030 | 0 | 5,090 | 29 | 1,427,064 | -52,322 | -20,605,169 |
| Receivables arising out of investments | -1,136,608 | 0 | -36,212 | 0 | 0 | -39,186 | -1,212,006 |
| Other short-term receivables | -1,249,866 | 0 | -296,471 | 123,118 | 0 | -14,487 | -1,437,706 |
| **Other receivables** | **-24,371,504** | **0** | **-327,593** | **123,147** | **1,427,064** | **-105,995** | **-23,254,881** |
| **Total** | **-53,942,552** | **0** | **-1,018,693** | **572,259** | **3,350,355** | **-186,334** | **-51,224,965** |

### 11) Deferred acquisition costs

Deferred acquisition costs

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Short-term deferred acquisition costs | 13,796,927 | 11,896,165 |
| Short-term deferred reinsurance acquisition costs | 5,962,307 | 6,611,029 |
| **Total** | **19,759,234** | **18,507,194** |

Deferred acquisition costs comprise short-term deferred policy acquisition costs that are gradually taken to acquisition costs in 2019.

### 12) Other assets

Other assets

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Inventories | 83,160 | 77,765 |
| Other short-term accrued income and deferred expenses | 1,981,060 | 1,965,630 |
| **Total** | **2,064,220** | **2,043,395** |

The other short-term accrued income and deferred expenses item mainly includes prepaid costs of insurance licences, and other costs paid in advance.

### 13) Cash and cash equivalents

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Cash in hand | 23,867 | 25,546 |
| Cash in bank accounts | 25,830,801 | 10,759,226 |
| Call and overnight deposits, and deposits of up to 3 months | 38,802,763 | 27,171,347 |
| **Total** | **64,657,431** | **37,956,119** |

Cash equivalents comprises demand deposits and deposits placed with an original maturity of up to three months. The increase in cash compared to year-end 2017 is related to the rise in interest rates expected in 2019 and the settlement of maturity benefits on life policies of Zavarovalnica Sava in January 2019.

### 14) Non-current assets held for sale

The amount of non-current assets held for sale rose compared to the previous year to EUR 49,890 (2017: EUR 648).

### 15) Share capital

As at 31 December 2018, the controlling company's share capital was divided into 17,219,662 shares (the same as at 31/12/2017). All shares are ordinary registered shares of the same class. Their holders are entitled to participate in the Company's control and profits (dividends). Each share carries one vote in general meeting and entitles the bearer to a proportionate share of the dividend payout.

Shares are recorded in the Central Securities Clearing Corporation (KDD) under the POSR ticker symbol.

As at year-end 2018, the Company's shareholders' register listed 4,073 shareholders (31/12/2017: 4,061 shareholders). The Company's shares are listed in the prime market of the Ljubljana Stock Exchange.

### 16) Capital reserves

A contra account of capital reserves includes the difference between market and book value of acquired non-controlling interests. The balance of capital reserves remained unchanged in 2018.

Movement in capital reserves

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **As at 01/01/** | **43,035,948** | **43,681,441** |
| Acquisition of non-controlling interests by company | 0 | -645,493 |
| Sava osiguruvanje (MKD) | 0 | 930 |
| Zavarovalnica Sava | 0 | -646,423 |
| **As at 31/12/** | **43,035,948** | **43,035,948** |

### 17) Profit reserves

| (EUR) | 31/12/2018 | 31/12/2017 | Distributable/ non-distributable |
|---|---|---|---|
| Legal reserves and reserves provided for by the articles of association | 11,704,009 | 11,578,919 | non-distributable |
| Reserve for own shares | 24,938,709 | 24,938,709 | non-distributable |
| Catastrophe equalisation reserve | 11,225,068 | 11,225,068 | non-distributable |
| Other profit reserves | 135,739,128 | 114,805,380 | distributable |
| **Total** | **183,606,914** | **162,548,076** | |

Under the law of certain markets where the Group is present, equalisation provisions and catastrophe equalisation provisions are treated as technical provisions. As these requirements are not IFRS-compliant, the Group carries these provisions within profit reserves. Additions are made to these provisions by establishing other reserves from net profit for the year (subject to resolution of the management and the supervisory boards), while a dismantling or release of the provision is taken to retained earnings.

In line with regulations, the management board or the supervisory board may, when adopting the annual report, allocate a part of net profit to other profit reserves, but not more than half of the net profit for the period. In 2018 other profit reserves increased on this basis. Other reserves are distributable. The management board has the power to propose the appropriation of reserves as part of distribution of distributable profit, which is subject to approval of the general meeting.

### 18) Own shares

As at 31 December 2018, the Group held a total of 1,721,966 own shares (2017: 1,721,966) with ticker POSR (accounting for 10% less one share of the issued shares) for a value of EUR 24,938,709 (2017: EUR 24,938,709).

Own shares are a contra account of equity.

### 19) Fair value reserve

The fair value reserve comprises the change in fair value of available-for-sale financial assets.

| (EUR) | 2018 | 2017 |
|---|---|---|
| **As at 1 January** | **18,331,697** | **17,458,948** |
| Change in fair value | -5,900,511 | 2,804,458 |
| Transfer of the negative fair value reserve to the IS due to impairment | -1,943,975 | -320,000 |
| Transfer from fair value reserve to the IS due to disposal | -577,887 | -1,633,218 |
| Deferred tax | 1,703,734 | 21,508 |
| **Total fair value reserve** | **11,613,059** | **18,331,697** |

The table shows the net change in the fair value reserve, which is an equity component.

### 20) Net profit or loss and retained earnings

The net profit for 2018 attributable to owners of the controlling company totalled EUR 42.8 million (2017: EUR 31.1 million). The management and supervisory boards have already allocated part of the net profit of EUR 20.9 million to other profit reserves. The remaining part of the net result of EUR 21.8 million is recognised as net profit for the financial year in the statement of financial position.

#### Net earnings/loss per share

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Net profit or loss for the period | 43,011,849 | 31,094,908 |
| Net profit or loss attributable to owners of the controlling company | 42,790,617 | 31,065,329 |
| Weighted average number of shares outstanding | 15,497,696 | 15,497,696 |
| **Net earnings/loss per share** | **2.76** | **2.00** |

#### Comprehensive income per share

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Comprehensive income for the period | 36,448,443 | 32,790,903 |
| Comprehensive income for the owners of the controlling company | 36,225,581 | 32,754,821 |
| Weighted average number of shares outstanding | 15,497,696 | 15,497,696 |
| **Comprehensive income per share** | **2.34** | **2.11** |

The weighted number of shares takes into account the annual average calculated on the basis of monthly averages of ordinary shares less the number of own shares. The weighted average number of shares outstanding in the financial period was 15,497,696 and the same as in 2017. The controlling company does not have potentially dilutive capital instruments, which is why basic earnings per share equal diluted earnings per share.

Retained earnings as at 31 December 2018 increased by EUR 2.0 million from 31 December 2017.

Retained earnings were strengthened by the transferred net profit for the previous year of EUR 14.5 million, but reduced by EUR 12.4 million for dividend payments and EUR 0.1 million allocated to legal reserves.

### 21) Non-controlling interest in equity

#### Non-controlling interest in equity

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Sava osiguruvanje (MKD) | 327,694 | 311,778 |
| Sava Station | 23,711 | 6,704 |
| TBS Team 24 | 198,212 | 0 |
| **Total** | **549,617** | **318,482** |

### 22) Technical provisions and the technical provision for the benefit of life insurance policyholders who bear the investment risk

#### Movement in gross technical provisions and the technical provision for the benefit of life insurance policyholders who bear the investment risk

| (EUR) | 01/01/2018 | Additions | Uses and releases | Additions – acquisition of subsidiary | Exchange differences | 31/12/2018 |
|---|---|---|---|---|---|---|
| Gross unearned premiums | 171,857,259 | 149,811,879 | -138,334,761 | 715,562 | 51,896 | 184,101,835 |
| Technical provisions for life insurance business | 271,409,915 | 24,754,377 | -41,320,059 | 0 | 5,133 | 254,849,366 |
| Gross provision for outstanding claims | 479,072,582 | 197,150,744 | -206,554,396 | 674,115 | -285,484 | 470,057,561 |
| Gross provision for bonuses, rebates and cancellations | 1,780,231 | 1,432,153 | -1,734,446 | 0 | -272 | 1,477,666 |
| Other gross technical provisions | 7,278,375 | 8,693,992 | -6,416,885 | 448,977 | 600 | 10,005,059 |
| **Total** | **931,398,362** | **381,843,145** | **-394,360,547** | **1,838,654** | **-228,127** | **920,491,487** |
| Net technical provisions for the benefit of life insurance policyholders who bear the investment risk | 226,527,893 | 23,197,649 | -39,692,905 | 0 | 0 | 210,032,637 |

| (EUR) | 01/01/2017 | Additions | Uses and releases | Exchange differences | 31/12/2017 |
|---|---|---|---|---|---|
| Gross unearned premiums | 157,678,496 | 141,550,030 | -127,482,731 | 111,464 | 171,857,259 |
| Technical provisions for life insurance business | 269,762,815 | 27,224,792 | -25,683,754 | 106,062 | 271,409,915 |
| Gross provision for outstanding claims | 475,157,985 | 222,075,488 | -212,492,995 | -5,667,896 | 479,072,582 |
| Gross provision for bonuses, rebates and cancellations | 1,831,422 | 1,190,679 | -1,242,492 | 622 | 1,780,231 |
| Other gross technical provisions | 6,790,605 | 6,485,437 | -6,013,852 | 16,185 | 7,278,375 |
| **Total** | **911,221,323** | **398,526,426** | **-372,915,824** | **-5,433,563** | **931,398,362** |
| Net technical provisions for the benefit of life insurance policyholders who bear the investment risk | 226,994,200 | 40,415,998 | -40,882,305 | 0 | 226,527,893 |

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Consolidated gross technical provisions increased by 1.2% in 2018, the result of an increase in unearned premiums and a decline in mathematical and claims provisions.

- Unearned premiums grew by 7.1%, which stems from the growth in non-life gross premiums written.
- Mathematical provisions decreased by 6.1%, in line with the movement of the traditional life insurance portfolio: The lion's share of mathematical provisions relates to the mature portfolio of these policies in Slovenia, where many policies matured in 2018 (as reflected in the amount of maturity benefits payments made on policies), resulting in lower mathematical provisions of the Slovenian portfolio. Consolidated mathematical provisions, by contrast, increased due to the growth and maturing of life portfolios abroad as well as owing to the growing volume of pension business of Sava Pokojninska Družba.
- Claims provisions decreased by 1.9%, with the decrease due to settlement of past large losses from claims provisions and releases from past-year IBNR provisions partly offset by increases in the parent company (mostly relating to typhoon Jebi).
- The provision for bonuses, rebates and cancellations is a small part of technical provisions; the provision decreased in Zavarovalnica Sava.
- The provision for unexpired risks (shown under the other gross technical provisions item) decreased by 37.6%, primarily because of higher unearned premiums, constituting the basis for calculating these provisions.

The provision for the benefit of life insurance policyholders who bear the investment risk decreased by 7.3%, mainly on account of maturity benefit payments (similar to mathematical provisions).

**Calculation of the gross provision for unexpired risks by class of insurance**

| (EUR) | Primary insurance | Reinsurance business | |
|---|---|---|---|
| 31/12/2018 | Provision for unexpired risks | Expected combined ratio | Provision for unexpired risks |
| Personal accident | 172,388 | 84.2% | 0 |
| Health | 132,839 | 122.9% | 93 |
| Land vehicles casco | 2,992,501 | 95.9% | 0 |
| Railway rolling stock | 0 | 167.3% | 18,471 |
| Aircraft hull | 0 | 104.3% | 4,125 |
| Ships hull | 24,856 | 139.7% | 565,258 |
| Goods in transit | 31,988 | 90.3% | 0 |
| Fire and natural forces | 4,580,945 | 88.5% | 0 |
| Other damage to property | 433,100 | 66.4% | 0 |
| Motor liability | 697,615 | 90.9% | 0 |
| Aircraft liability | 0 | 26.3% | 0 |
| Liability for ships | 196 | 67.7% | 0 |
| General liability | 187,765 | 57.0% | 0 |
| Credit | 0 | -13.1% | 0 |
| Suretyship | 0 | 169.1% | 50,325 |
| Miscellaneous financial loss | 49,550 | 63.8% | 0 |
| Legal expenses | 0 | 33.2% | 0 |
| Assistance | 63,040 | 13.7% | 0 |
| Life | 0 | 55.1% | 0 |
| Unit-linked life | 0 | 55.9% | 0 |
| **Total** | **9,366,784** | **86.1%** | **638,273** |

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| (EUR) 31/12/2017 | Primary insurance | Reinsurance business | |
|---|---|---|---|
| | Provision for unexpired risks | Expected combined ratio | Provision for unexpired risks |
| Personal accident | 383,534 | 91.6% | 0 |
| Health | 160,216 | 128.3% | 1,099 |
| Land vehicles casco | 1,629,518 | 98.6% | 0 |
| Railway rolling stock | 0 | 41.8% | 0 |
| Aircraft hull | 0 | 121.9% | 9,168 |
| Ships hull | 55,003 | 127.3% | 320,611 |
| Goods in transit | 23,616 | 78.5% | 0 |
| Fire and natural forces | 3,887,561 | 90.8% | 0 |
| Other damage to property | 309,943 | 60.1% | 0 |
| Motor liability | 135,924 | 91.8% | 0 |
| Aircraft liability | 0 | 59.5% | 0 |
| Liability for ships | 5,823 | 73.1% | 0 |
| General liability | 175,729 | 52.8% | 0 |
| Credit | 1,187 | -2.0% | 0 |
| Suretyship | 0 | 180.3% | 38,475 |
| Miscellaneous financial loss | 65,790 | 73.9% | 0 |
| Legal expenses | 9,040 | 43.1% | 0 |
| Assistance | 56,422 | 38.1% | 0 |
| Life | 0 | 58.1% | 0 |
| Unit-linked life | 0 | 55.4% | 0 |
| **Total** | **6,899,308** | **86.7%** | **369,353** |

Combined ratios for primary insurance are not given as amounts relate to several Group members.

## 23) Other provisions

Other provisions mainly comprise provisions for long-term employee benefits of EUR 7.0 million (2017: EUR 6.9 million), as described in section 17.4.27 “Other provisions”. The provisions increased mainly because of additions for current service costs in line with the method prescribed by IAS 19. Following is a separate presentation of changes in provisions for severance pay upon retirement arising from changes in actuarial assumptions that are recognised in equity.

### Movement in the provision for severance pay upon retirement and jubilee benefits

| (EUR) | Provision for severance pay upon retirement | Provision for jubilee benefits | Total |
|---|---|---|---|
| **Balance as at 01/01/2018** | **4,164,948** | **2,782,483** | **6,947,431** |
| Interest expense (IS) | 55,447 | 37,343 | 92,790 |
| Current service cost (IS) | 302,682 | 201,762 | 504,444 |
| Past service cost (IS) | -42,140 | -55,161 | -97,301 |
| Payout of benefits (-) | -30,816 | -194,467 | -225,283 |
| Actuarial losses (IS) | 0 | -38,144 | -38,144 |
| Actuarial losses (SFP) | -190,794 | -35,850 | -226,644 |
| Additions – acquisition of subsidiary | 7,021 | 18,231 | 25,252 |
| Exchange differences | -27 | -277 | -304 |
| **Balance as at 31/12/2018** | **4,266,321** | **2,715,920** | **6,982,241** |

| (EUR) | Provision for severance pay upon retirement | Provision for jubilee benefits | Total |
|---|---|---|---|
| **Balance as at 01/01/2017** | **4,331,830** | **2,988,983** | **7,320,813** |
| Interest expense (IS) | 709 | 1,281 | 1,990 |
| Current service cost (IS) | 324,231 | 224,070 | 548,301 |
| Past service cost (IS) | -1,025 | 12,730 | 11,705 |
| Payout of benefits (-) | -102,925 | -211,067 | -313,992 |
| Actuarial losses (IS) | 0 | -232,707 | -232,707 |
| Actuarial losses (SFP) | -389,847 | -1,975 | -391,822 |
| Exchange differences | 1,975 | 1,168 | 3,143 |
| **Balance as at 31/12/2017** | **4,164,948** | **2,782,483** | **6,947,431** |

Below we provide a sensitivity analysis of the provision for severance pay upon retirement and the provision for jubilee benefits.

| Sensitivity | Provision for severance pay upon retirement | | Provision for jubilee benefits | |
|---|---|---|---|---|
| Impact on the level of provisions (EUR) | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Decrease in discount rate of 1% | 576,233 | 589,909 | 289,466 | 290,869 |
| Increase in discount rate of 1% | -478,993 | -490,130 | -247,649 | -248,998 |
| Increase in real income growth of 0.5% | -256,792 | -262,778 | -119,091 | -120,121 |
| Increase in real income growth of 0.5 % | 278,511 | 284,848 | 127,221 | 128,144 |
| Decrease in staff turnover of 10% | 134,392 | 132,770 | 71,880 | 72,066 |
| Increase in staff turnover of 10 % | -127,432 | -126,293 | -68,621 | -68,971 |
| Decrease in mortality rate of 10% | 29,429 | 29,844 | 11,553 | 11,559 |
| Increase in mortality rate of 10% | -28,851 | -29,391 | -11,300 | -11,468 |

In addition to provisions for employees, other provisions include remaining provisions of EUR 0.7 million (2017: EUR 0.7 million) relating to provisions for litigation and the amounts recognised in accordance with the Vocational Rehabilitation and Employment of Persons with Disabilities Act from bonuses for exceeding the quota and amounts exempt from pension and disability insurance contributions. These may be used exclusively for disabled employees of the insurance company for the purpose set down by law.

| (EUR) | 01/01/2018 | Additions | Uses and releases | Exchange differences | 31/12/2018 |
|---|---|---|---|---|---|
| Other provisions | 653,182 | 174,342 | -79,539 | 21 | 748,006 |

| (EUR) | 01/01/2017 | Additions | Uses and releases | Exchange differences | 31/12/2017 |
|---|---|---|---|---|---|
| Other provisions | 760,064 | 63,497 | -170,598 | 219 | 653,182 |

## 24) Other financial liabilities

Other financial liabilities comprise minor liabilities for unpaid dividends of the controlling company relating to previous years.

## 25) Liabilities from operating activities

### Liabilities from operating activities

| (EUR) | Maturity | | |
|---|---|---|---|
| 2018 | From 1 to 5 years | Up to 1 year | Total |
| Liabilities to policyholders | 0 | 15,647,149 | 15,647,149 |
| Liabilities to insurance intermediaries | 706 | 2,773,593 | 2,774,299 |
| Other liabilities from primary insurance business | 841 | 25,856,225 | 25,857,066 |
| **Liabilities from primary insurance business** | **1,547** | **44,276,967** | **44,278,514** |
| Liabilities for reinsurance and co-insurance premiums | 2,490 | 4,427,858 | 4,430,348 |
| Liabilities for shares in reinsurance claims | 0 | 157,718 | 157,718 |
| Other liabilities from co-insurance and reinsurance business | 0 | 1,587,966 | 1,587,966 |
| **Liabilities from reinsurance and co-insurance business** | **2,490** | **6,173,542** | **6,176,032** |
| **Current tax liabilities** | **0** | **4,282,055** | **4,282,055** |
| **Total** | **4,037** | **54,732,564** | **54,736,601** |

| (EUR) | Maturity | | |
|---|---|---|---|
| 2017 | From 1 to 5 years | Up to 1 year | Total |
| Liabilities to policyholders | 0 | 25,853,797 | 25,853,797 |
| Liabilities to insurance intermediaries | 301 | 2,697,612 | 2,697,913 |
| Other liabilities from primary insurance business | 0 | 26,159,579 | 26,159,579 |
| **Liabilities from primary insurance business** | **301** | **54,710,988** | **54,711,289** |
| Liabilities for reinsurance and co-insurance premiums | 1,756 | 5,110,717 | 5,112,473 |
| Liabilities for shares in reinsurance claims | 0 | 42,392 | 42,392 |
| Other liabilities from co-insurance and reinsurance business | 0 | 5,318 | 5,318 |
| **Liabilities from reinsurance and co-insurance business** | **1,756** | **5,158,427** | **5,160,183** |
| **Current tax liabilities** | **0** | **726,716** | **726,716** |
| **Total** | **2,057** | **60,596,131** | **60,598,188** |

Liabilities decreased compared to year-end 2017, mainly due to lower liabilities to policyholders.

Current tax liabilities rose by EUR 3.6 million year on year. This is because during 2018, the advance payments of tax made by Group companies was lower than actually assessed corporate income tax for 2018.

In 2018, most liabilities were current.

## 26) Other liabilities

### Other liabilities by maturity

| (EUR) | Maturity | |
|---|---|---|
| 2018 | Up to 1 year | Total |
| Other liabilities | 14,334,129 | 14,334,129 |
| Deferred income and accrued expenses | 19,232,869 | 19,232,869 |
| **Total** | **33,566,998** | **33,566,998** |

| (EUR) | Maturity | |
|---|---|---|
| 2017 | Up to 1 year | Total |
| Other liabilities | 13,450,252 | 13,450,252 |
| Deferred income and accrued expenses | 17,146,131 | 17,146,131 |
| **Total** | **30,596,383** | **30,596,383** |

Other liabilities and deferred income and accrued expenses are unsecured.

### Other liabilities

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Short-term liabilities due to employees | 2,805,998 | 2,724,187 |
| Diverse other short-term liabilities for insurance business | 3,853,572 | 3,622,424 |
| Short-term trade liabilities | 4,474,289 | 3,690,369 |
| Diverse other short-term liabilities | 3,161,322 | 3,400,486 |
| Other long-term liabilities | 38,948 | 12,786 |
| **Total** | **14,334,129** | **13,450,252** |

### Change in short-term provisions

| (EUR) | 01/01/2018 | Additions | Uses | Releases | Additions – acquisition of subsidiary | Exchange differences | 31/12/2018 |
|---|---|---|---|---|---|---|---|
| Short-term accrued expenses | 3,342,673 | 12,723,728 | -9,191,952 | -11 | 2,607 | -4 | 6,877,041 |
| Other accrued expenses and deferred income | 13,803,458 | 35,070,046 | -36,648,626 | -16,376 | 146,119 | 1,207 | 12,355,828 |
| **Total** | **17,146,131** | **47,793,774** | **-45,840,578** | **-16,387** | **148,726** | **1,203** | **19,232,869** |

| (EUR) | 01/01/2017 | Additions | Uses | Releases | Exchange differences | 31/12/2017 |
|---|---|---|---|---|---|---|
| Short-term accrued expenses | 3,163,857 | 4,335,018 | -4,076,880 | -79,320 | -2 | 3,342,673 |
| Other accrued expenses and deferred income | 8,783,477 | 14,895,274 | -9,900,423 | -16,362 | 41,492 | 13,803,458 |
| **Total** | **11,947,334** | **19,230,293** | **-13,977,303** | **-95,682** | **41,490** | **17,146,131** |

## 27) Fair values of assets and liabilities

### Determination of fair values

| Asset class / principal market | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Debt securities** | | | |
| OTC market | Debt securities measured based on CBBT prices in an active market. | Debt securities measured based on CBBT prices in an inactive market.<br>Debt securities measured at the BVAL price if the CBBT price is unavailable.<br>Debt securities are 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.<br>Debt securities measured at the BVAL price when the stock exchange price is unavailable.<br>Debt securities are 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.<br>Shares without available stock exchange prices and that are measured using an internal model based on level 2 inputs. | Shares are measured using an internal model that does not consider level 2 inputs. |
| **Unquoted shares and participating interests** | | | |
| | | | Unquoted shares measured at cost. Fair value for the purposes of disclosures calculated based on an internal model used for impairment testing mainly using unobserved inputs. |
| **Mutual funds** | | | |
| | Mutual funds measured at the quoted unit value on the measurement date. | | |
| **Alternative funds** | | | |
| | | | The fair value is determined based on the valuation of individual projects, using methods for discounting future cash flows. |
| **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 Group measures the fair value of each financial instrument based on the methods shown above in line with its accounting policies.

### Financial assets by level of the fair value hierarchy

| (EUR) | Carrying amount | Fair value | | | | Difference between FV and CA |
|---|---|---|---|---|---|---|
| 31/12/2018 | | Level 1 | Level 2 | Level 3 | Total fair value | |
| **Investments measured at fair value** | **897,433,086** | **384,534,831** | **489,981,609** | **22,916,646** | **897,433,086** | **0** |
| **At fair value through P/L** | **12,415,676** | **8,832,282** | **1,620,187** | **1,963,207** | **12,415,676** | **0** |
| Designated to this category | 12,415,676 | 8,832,282 | 1,620,187 | 1,963,207 | 12,415,676 | 0 |
| Debt instruments | 10,884,728 | 7,811,997 | 1,109,524 | 1,963,207 | 10,884,728 | 0 |
| Equity instruments | 1,530,948 | 1,020,285 | 510,663 | 0 | 1,530,948 | 0 |
| **Available-for-sale** | **885,017,410** | **375,702,549** | **488,361,422** | **20,953,439** | **885,017,410** | **0** |
| Debt instruments | 833,260,563 | 344,077,414 | 475,895,531 | 13,287,618 | 833,260,563 | 0 |
| Equity instruments | 46,492,307 | 31,625,135 | 12,465,891 | 2,401,281 | 46,492,307 | 0 |
| Investments in infrastructure funds | 5,264,540 | 0 | 0 | 5,264,540 | 5,264,540 | 0 |
| **Investments for the benefit of policyholders who bear the investment risk** | **195,144,065** | **160,967,316** | **34,176,749** | **0** | **195,144,065** | **0** |
| **Investments not measured at fair value** | **110,664,384** | **4,964,218** | **102,974,267** | **7,391,550** | **115,330,035** | **4,665,651** |
| **Held-to-maturity assets** | **77,122,037** | **4,964,218** | **76,410,895** | **0** | **81,375,113** | **4,253,076** |
| Debt instruments | 77,122,037 | 4,964,218 | 76,410,895 | 0 | 81,375,113 | 4,253,076 |
| **Loans and deposits** | **33,542,347** | **0** | **26,563,372** | **7,391,550** | **33,954,922** | **412,575** |
| Deposits | 26,150,797 | 0 | 26,563,372 | 0 | 26,563,372 | 412,575 |
| Loans granted | 1,116,240 | 0 | 0 | 1,116,240 | 1,116,240 | 0 |
| Deposits with cedants | 6,275,310 | 0 | 0 | 6,275,310 | 6,275,310 | 0 |
| **Investments for the benefit of policyholders who bear the investment risk not measured at fair value** | **9,674,439** | **4,956,927** | **5,302,551** | **0** | **10,259,478** | **585,039** |
| **Total investments** | **1,008,097,470** | **389,499,049** | **592,955,876** | **30,308,196** | **1,012,763,121** | **4,665,651** |
| **Total investments for the benefit of life policyholders who bear the investment risk** | **204,818,504** | **165,924,243** | **39,479,300** | **0** | **205,403,543** | **585,039** |

| (EUR) | Carrying amount | Fair value | | | | Difference between FV and CA |
|---|---|---|---|---|---|---|
| 31/12/2017 | | Level 1 | Level 2 | Level 3 | Total fair value | |
| **Investments measured at fair value** | **903,863,149** | **693,779,164** | **195,278,191** | **14,805,794** | **903,863,149** | **0** |
| **At fair value through P/L** | **6,217,870** | **3,522,808** | **2,384,776** | **310,286** | **6,217,870** | **0** |
| Designated to this category | 6,217,870 | 3,522,808 | 2,384,776 | 310,286 | 6,217,870 | 0 |
| Debt instruments | 4,998,211 | 2,821,388 | 1,866,537 | 310,286 | 4,998,211 | 0 |
| Equity instruments | 1,219,659 | 701,420 | 518,239 | 0 | 1,219,659 | 0 |
| **Available-for-sale** | **897,645,279** | **690,256,356** | **192,893,415** | **14,495,508** | **897,645,279** | **0** |
| Debt instruments | 849,482,348 | 658,821,312 | 180,410,633 | 10,250,403 | 849,482,348 | 0 |
| Equity instruments | 48,162,931 | 31,435,044 | 12,482,782 | 4,245,105 | 48,162,931 | 0 |
| **Investments for the benefit of policyholders who bear the investment risk** | **203,797,586** | **192,098,788** | **11,698,798** | **0** | **203,797,586** | **0** |
| **Investments not measured at fair value** | **134,261,870** | **85,121,533** | **51,603,990** | **6,424,332** | **143,149,855** | **8,887,985** |
| **Held-to-maturity assets** | **106,232,327** | **85,121,533** | **29,118,080** | **0** | **114,239,613** | **8,007,286** |
| Debt instruments | 106,232,327 | 85,121,533 | 29,118,080 | 0 | 114,239,613 | 8,007,286 |
| **Loans and deposits** | **28,029,543** | **0** | **22,485,910** | **6,424,332** | **28,910,242** | **880,699** |
| Deposits | 21,605,211 | 0 | 22,485,910 | 0 | 22,485,910 | 880,699 |
| Loans granted | 591,985 | 0 | 0 | 591,985 | 591,985 | 0 |
| Deposits with cedants | 5,832,347 | 0 | 0 | 5,832,347 | 5,832,347 | 0 |
| **Investments for the benefit of policyholders who bear the investment risk not measured at fair value** | **23,430,467** | **10,650,182** | **13,729,849** | **0** | **24,380,031** | **949,564** |
| **Total investments** | **1,038,125,019** | **778,900,697** | **246,882,181** | **21,230,126** | **1,047,013,004** | **8,887,985** |
| **Total investments for the benefit of life policyholders who bear the investment risk** | **227,228,053** | **202,748,970** | **25,428,647** | **0** | **228,177,617** | **949,564** |

As BID CBBT prices were unavailable for a large part of the bond portfolio, the BVAL price as at 31 December 2018 was used instead, in accordance with the methodology for determining the fair value of debt securities.

### Movements in investments, income and expenses measured at fair value – Level 3

| (EUR) | Debt instruments | | Equity instruments | | Other investments | | Investments in infrastructure funds | |
|---|---|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| **Opening balance** | **10,560,689** | **7,138,804** | **4,245,105** | **4,565,105** | **0** | **46,479** | **0** | **0** |
| Additions | 3,842,167 | 3,344,783 | 0 | 0 | 0 | 0 | 5,976,467 | 0 |
| Impairment | 0 | 0 | -1,943,974 | -320,000 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | -1,048,541 | 0 |
| Maturity | -769,922 | -354,754 | 0 | 0 | 0 | -46,479 | 0 | 0 |
| Revaluation to fair value | -59,545 | 431,856 | 0 | 0 | 0 | 0 | 336,614 | 0 |
| Reclassification into level | 1,677,436 | 0 | 100,150 | 0 | 0 | 0 | 0 | 0 |
| **Closing balance** | **15,250,825** | **10,560,689** | **2,401,281** | **4,245,105** | **0** | **0** | **5,264,540** | **0** |
| Income | 375,567 | 87,103 | 399,170 | 190,180 | 0 | 0 | 92,007 | 0 |
| Expenses | 0 | -40 | 1,943,974 | 0 | 0 | 0 | 0 | 0 |

### Reclassification of assets and financial liabilities between levels

| (EUR) 31/12/2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **At fair value through P/L** | **-117,837** | **-1,525,721** | **1,643,558** |
| Designated to this category | -117,837 | -1,525,721 | 1,643,558 |
| Debt instruments | -117,837 | -1,525,721 | 1,643,558 |
| **Available-for-sale** | **-293,252,954** | **293,064,856** | **188,098** |
| Debt instruments | -293,252,954 | 293,165,006 | 87,948 |
| Equity instruments | 0 | -100,150 | 100,150 |
| **Total financial investments** | **-293,370,791** | **291,539,135** | **1,831,656** |

| (EUR) 31/12/2017 | Level 1 | Level 2 |
|---|---|---|
| **At fair value through P/L** | **-170,282** | **170,282** |
| Designated to this category | -170,282 | 170,282 |
| Debt instruments | -170,282 | 170,282 |
| **Available-for-sale** | **-30,739,013** | **30,739,013** |
| Debt instruments | -30,739,013 | 30,739,013 |
| **Total financial investments** | **-30,909,295** | **30,909,295** |

The Group primarily measures its OTC assets based on BID CBBT prices representing unadjusted quoted prices, thus meeting the criteria for classification into level 1. Level 1 also includes mutual fund assets and listed securities that satisfy the active market requirement.

As at 31 December 2018, level 1 investments represented 42.8% (31/12/2017: 76.8%) of financial investments measured at fair value.

The valuation model applied used directly and indirectly observable market inputs, such as the risk free interest rate curve, yield of similar financial instruments, and credit and liquidity risk premiums. Since inputs used by the model meet level 2 criteria, investments valued using the internal model were classified into level 2.

### Disclosure of the fair value of non-financial assets measured in the statement of financial position at amortised cost or at cost

| 31/12/2018 (EUR) | Date of fair value measurement | Carrying amount at reporting date | Fair value at reporting date | Determination of fair values |
|---|---|---|---|---|
| **Property** | | | | |
| Owner-occupied property | 31/12/2018 | 36,596,455 | 37,492,575 | market approach and the income approach (weighted 50 : 50%), new purchases at cost |
| Investment property | 31/12/2018 | 20,540,627 | 21,115,553 | |
| **Total** | | **57,137,084** | **58,608,128** | |

| 31/12/2017 (EUR) | Date of fair value measurement | Carrying amount at reporting date | Fair value at reporting date | Determination of fair values |
|---|---|---|---|---|
| **Property** | | | | |
| Owner-occupied property | 31/12/2017 | 39,539,952 | 37,093,592 | market approach and the income approach (weighted 50 : 50%), new purchases at cost |
| Investment property | 31/12/2017 | 15,364,184 | 15,831,277 | |
| **Total** | | **54,904,136** | **52,924,869** | |

### Movements in fair values of owner-occupied and investment property

| 2018 (EUR) | Opening balance | Acquisitions | Disposals | Reallocations | Change in fair value | Additions – acquisition of subsidiary | Exchange differences | Closing balance |
|---|---|---|---|---|---|---|---|---|
| Owner-occupied property | 37,093,592 | 360,421 | -110,240 | 638,229 | -479,739 | 0 | -9,688 | 37,492,575 |
| Investment property | 15,831,277 | 289,546 | -172,797 | -638,229 | -93,648 | 5,894,555 | 4,849 | 21,115,553 |
| **Total** | **52,924,869** | **649,967** | **-283,037** | **0** | **-573,387** | **5,894,555** | **-4,839** | **58,608,128** |

| 2017 (EUR) | Opening balance | Acquisitions | Disposals | Reallocations | Change in fair value | Additions – acquisition of subsidiary | Exchange differences | Closing balance |
|---|---|---|---|---|---|---|---|---|
| Owner-occupied property | 43,047,424 | 3,139,500 | -199,752 | -7,429,088 | -1,498,253 | 33,761 | 37,093,592 | 37.492.575 |
| Investment property | 8,100,146 | 673,412 | 0 | 7,355,635 | -352,882 | 54,966 | 15,831,277 | 20.320.058 |
| **Total** | **51,147,570** | **3,812,912** | **-199,752** | **-73,453** | **-1,851,135** | **88,727** | **52,924,869** | **57.812.633** |

Valuation techniques for all items described above are defined in accounting policies. For investment property, the method is described in section 17.4.14 “Investment property” and for financial investments in section 17.4.15 “Financial investments and funds for the benefit of policyholders who bear the investment risk”.

# 17.8 Notes to the consolidated financial statements – income statement

## 28) Net earned premiums

### Net earned premiums

| (EUR) 2018 | Gross premiums written | Premiums written for assumed co-insurance | Reinsurers' and co-insurers' shares (-) | Change in gross unearned premiums (+/-) | Change in unearned premiums, reinsurers' and co-insurers' shares (+/-) | Net premiums earned |
|---|---|---|---|---|---|---|
| Personal accident | 28,852,852 | 2,475 | -100,017 | -445,474 | -2,837 | 28,306,999 |
| Health | 6,964,822 | 266 | -666,896 | 482,048 | 40,326 | 6,820,566 |
| Land vehicles casco | 108,228,545 | 0 | -1,605,236 | -4,759,916 | 59,898 | 101,923,291 |
| Railway rolling stock | 136,537 | 0 | -5,281 | 12,454 | 156 | 143,866 |
| Aircraft hull | 834,949 | 0 | -10,614 | -64,244 | -656 | 759,435 |
| Ships hull | 5,912,366 | 0 | -390,432 | -285,084 | 28,242 | 5,265,092 |
| Goods in transit | 6,277,836 | 1,156,875 | -360,331 | -47,126 | -170,104 | 6,857,150 |
| Fire and natural forces | 91,683,262 | 930,919 | -13,756,218 | 96,129 | 426,342 | 79,380,434 |
| Other damage to property | 41,067,719 | 473,656 | -5,229,016 | -577,516 | -112,212 | 35,622,631 |
| Motor liability | 117,990,521 | 0 | -956,289 | -5,557,266 | -67,840 | 111,409,126 |
| Aircraft liability | 217,590 | 0 | -98,377 | -17,722 | 6,338 | 107,829 |
| Liability for ships | 942,374 | 0 | -15,846 | 5,499 | 7,023 | 939,050 |
| General liability | 21,907,694 | 487,775 | -1,743,740 | -124,706 | -150,781 | 20,376,242 |
| Credit | 3,496,086 | 0 | 0 | 732,456 | 0 | 4,228,542 |
| Suretyship | 207,362 | 0 | -1,961 | -87,034 | 461 | 118,828 |
| Miscellaneous financial loss | 2,569,769 | 45,183 | -879,672 | 219,528 | 5,303 | 1,960,111 |
| Legal expenses | 723,902 | 8,946 | -609,134 | 20,694 | 25,508 | 169,916 |
| Assistance | 15,963,453 | 0 | -65,958 | -1,010,831 | -3,361,713 | 11,524,951 |
| Life | 44,138,014 | 0 | -280,091 | -17,749 | -4,648 | 43,835,526 |
| Unit-linked life | 45,077,598 | 193 | -167,743 | 10,165 | -97 | 44,920,116 |
| **Total non-life** | **453,977,639** | **3,106,095** | **-26,495,018** | **-11,408,111** | **-3,266,546** | **415,914,059** |
| **Total life** | **89,215,612** | **193** | **-447,834** | **-7,584** | **-4,745** | **88,755,642** |
| **Total** | **543,193,251** | **3,106,288** | **-26,942,852** | **-11,415,695** | **-3,271,291** | **504,669,701** |

| (EUR) 2017 | Gross premiums written | Premiums written for assumed co-insurance | Reinsurers' and co-insurers' shares (-) | Change in gross unearned premiums (+/-) | Change in unearned premiums, reinsurers' and co-insurers' shares (+/-) | Net premiums earned |
|---|---|---|---|---|---|---|
| Personal accident | 27,485,491 | 4,040 | -99,026 | 311,195 | -3,860 | 27,697,840 |
| Health | 7,480,495 | 143 | -594,628 | 26,129 | -26,873 | 6,885,266 |
| Land vehicles casco | 95,190,755 | 0 | -1,516,747 | -6,012,754 | 30,511 | 87,691,765 |
| Railway rolling stock | 212,491 | 0 | -4,248 | -16,800 | 339 | 191,782 |
| Aircraft hull | 60,812 | 932 | -13,976 | 120,028 | -82 | 167,714 |
| Ships hull | 5,769,241 | 0 | -347,656 | -493,637 | 64,762 | 4,992,710 |
| Goods in transit | 6,352,928 | 687,892 | -300,766 | -401,104 | 3,425 | 6,342,375 |
| Fire and natural forces | 91,656,789 | 745,730 | -12,835,690 | -1,106,006 | 289,243 | 78,750,066 |
| Other damage to property | 37,679,775 | 319,208 | -5,328,345 | -371,347 | 399,130 | 32,698,421 |
| Motor liability | 107,378,633 | 0 | -1,604,081 | -3,377,452 | 90,852 | 102,487,952 |
| Aircraft liability | 391,893 | 1,014 | -122,173 | -7,559 | -9,326 | 253,849 |
| Liability for ships | 988,883 | 0 | -9,964 | -36,221 | 1,571 | 944,269 |
| General liability | 20,414,990 | 263,553 | -1,984,008 | -355,283 | 314,282 | 18,653,534 |
| Credit | 5,588,902 | 0 | -121,318 | -1,141,736 | 0 | 4,325,848 |
| Suretyship | 394,971 | 0 | -42,602 | 48,481 | 0 | 400,850 |
| Miscellaneous financial loss | 2,977,741 | 61,365 | -649,591 | -141,523 | 42,222 | 2,290,214 |
| Legal expenses | 746,920 | 8,701 | -526,729 | -3,668 | -1,127 | 224,097 |
| Assistance | 13,984,936 | 0 | -7,683,809 | -919,774 | 446,200 | 5,827,553 |
| Life | 42,244,687 | 0 | -261,733 | 100,348 | 495 | 42,083,797 |
| Unit-linked life | 48,139,398 | 122 | -196,206 | 12,918 | -141 | 47,956,091 |
| **Total non-life** | **424,756,646** | **2,092,578** | **-33,785,357** | **-13,879,031** | **1,641,269** | **380,826,105** |
| **Total life** | **90,384,085** | **122** | **-457,939** | **113,266** | **354** | **90,039,888** |
| **Total** | **515,140,731** | **2,092,700** | **-34,243,296** | **-13,765,765** | **1,641,623** | **470,865,993** |

## 29) Investment income and expenses

### Investment income by IFRS category

| 2018 (EUR) | Interest income | Change in fair value and gains on disposal of FVPL assets | Gains on disposal of other IFRS asset categories | Income from dividends and shares – other investments | Exchange gains | Other income | Total | Net unrealised gains on investments of life insurance policyholders who bear the investment risk |
|---|---|---|---|---|---|---|---|---|
| **Held to maturity** | **3,859,397** | **0** | **0** | **0** | **24,044** | **0** | **3,883,441** | **341,122** |
| Debt instruments | 3,859,397 | 0 | 0 | 0 | 24,044 | 0 | 3,883,441 | 341,122 |
| **At fair value through P/L** | **242,059** | **213,683** | **0** | **28,993** | **3,542** | **65,960** | **554,237** | **16,142,187** |
| Designated to this category | 242,059 | 213,683 | 0 | 28,993 | 3,542 | 65,960 | 554,237 | 16,142,187 |
| Debt instruments | 242,059 | 149,371 | 0 | 0 | 2,185 | 1,182 | 394,797 | 59,784 |
| Equity instruments | 0 | 64,312 | 0 | 28,993 | 1,357 | 9,052 | 103,714 | 16,082,403 |
| Other investments | 0 | 0 | 0 | 0 | 0 | 55,726 | 55,726 | 0 |
| **Available-for-sale** | **11,599,677** | **0** | **2,251,786** | **1,349,374** | **6,178,620** | **9,645** | **21,389,102** | **379,562** |
| Debt instruments | 11,599,677 | 0 | 1,910,982 | 0 | 6,178,620 | 9,616 | 19,698,895 | 371,499 |
| Equity instruments | 0 | 0 | 340,804 | 1,257,367 | 0 | 0 | 1,598,171 | 8,063 |
| Other investments | 0 | 0 | 0 | 0 | 0 | 29 | 29 | 0 |
| Investments in infrastructure funds | 0 | 0 | 0 | 92,007 | 0 | 0 | 92,007 | 0 |
| **Loans and receivables** | **740,250** | **0** | **0** | **0** | **210,338** | **6,990** | **957,578** | **4,453** |
| Debt instruments | 698,974 | 0 | 0 | 0 | 93,388 | 6,990 | 799,352 | 4,453 |
| Other investments | 41,276 | 0 | 0 | 0 | 116,950 | 0 | 158,226 | 0 |
| **Financial investments of reinsurers i.r.o. reinsurance contracts with cedants** | **17,803** | **0** | **0** | **0** | **0** | **0** | **17,803** | **0** |
| **Total** | **16,459,186** | **213,683** | **2,251,786** | **1,378,367** | **6,416,544** | **82,595** | **26,802,161** | **16,867,324** |

### Investment expenses by IFRS category

| 2018 (EUR) | Interest expenses | Change in fair value and losses on disposal of FVPL assets | Losses on disposal of other IFRS asset categories | Impairment losses on investments | Exchange losses | Other | Total | Net unrealised losses on investments of life insurance policyholders who bear the investment risk | Expenses relating to associates and impairment losses on goodwill |
|---|---|---|---|---|---|---|---|---|---|
| **Held to maturity** | **0** | **0** | **0** | **1** | **52,511** | **0** | **52,512** | **0** | **0** |
| Debt instruments | 0 | 0 | 0 | 1 | 52,511 | 0 | 52,512 | 0 | 0 |
| **At fair value through P/L** | **0** | **636,625** | **0** | **0** | **21,309** | **24,483** | **682,417** | **23,498,245** | **0** |
| Designated to this category | 0 | 636,625 | 0 | 0 | 21,309 | 24,483 | 682,417 | 23,498,245 | 0 |
| Debt instruments | 0 | 522,255 | 0 | 0 | 21,210 | 9,667 | 553,132 | 63,010 | 0 |
| Equity instruments | 0 | 114,370 | 0 | 0 | 99 | 14,816 | 129,285 | 23,434,229 | 0 |
| Other investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,006 | 0 |
| **Available-for-sale** | **0** | **0** | **305,347** | **1,943,974** | **6,249,345** | **79,558** | **8,578,224** | **0** | **151,130** |
| Debt instruments | 0 | 0 | 167,133 | 0 | 6,248,976 | 79,558 | 6,495,667 | 0 | 0 |
| Equity instruments | 0 | 0 | 138,214 | 1,943,974 | 369 | 0 | 2,082,557 | 0 | 151,130 |
| **Loans and receivables** | **28,445** | **0** | **0** | **0** | **247,603** | **15,250** | **291,298** | **0** | **0** |
| Debt instruments | 0 | 0 | 0 | 0 | 44,070 | 15,250 | 59,320 | 0 | 0 |
| Other investments | 28,445 | 0 | 0 | 0 | 203,533 | 0 | 231,978 | 0 | 0 |
| **Total** | **28,445** | **636,625** | **305,347** | **1,943,975** | **6,570,768** | **119,291** | **9,604,451** | **23,498,245** | **151,130** |

## Net investment income

| 2018 (EUR) | Interest income/ expenses | Change in fair value and gains/losses on disposal of FVPL assets | Gains/losses on disposal of other IFRS asset categories | Income from dividends and shares – other investments | Impairment losses on investments | Foreign exchange gains/losses | Other income/ expenses | Total | Net unrealised gains/losses on investments of life insurance policyholders who bear the investment risk | Income/ expenses relating to associates and goodwill impairment losses |
|---|---|---|---|---|---|---|---|---|---|---|
| **Held to maturity** | **3,859,397** | **0** | **0** | **0** | **-1** | **-28,467** | **0** | **3,830,929** | **341,122** | **0** |
| Debt instruments | 3,859,397 | 0 | 0 | 0 | -1 | -28,467 | 0 | 3,830,929 | 341,122 | 0 |
| **At fair value through P/L** | **242,059** | **-422,942** | **0** | **28,993** | **0** | **-17,767** | **41,477** | **-128,180** | **-7,356,058** | **0** |
| Designated to this category | 242,059 | -422,942 | 0 | 28,993 | 0 | -17,767 | 41,477 | -128,180 | -7,356,058 | 0 |
| Debt instruments | 242,059 | -372,884 | 0 | 0 | 0 | -19,025 | -8,485 | -158,335 | -3,226 | 0 |
| Equity instruments | 0 | -50,058 | 0 | 28,993 | 0 | 1,258 | -5,764 | -25,571 | -7,351,826 | 0 |
| Other investments | 0 | 0 | 0 | 0 | 0 | 0 | 55,726 | 55,726 | -1,006 | 0 |
| **Available-for-sale** | **11,599,677** | **0** | **1,946,439** | **1,349,374** | **-1,943,974** | **-70,725** | **-69,913** | **12,810,878** | **379,562** | **-151,130** |
| Debt instruments | 11,599,677 | 0 | 1,743,849 | 0 | 0 | -70,356 | -69,942 | 13,203,228 | 371,499 | 0 |
| Equity instruments | 0 | 0 | 202,590 | 1,257,367 | -1,943,974 | -369 | 0 | -484,386 | 8,063 | -151,130 |
| Other investments | 0 | 0 | 0 | 0 | 0 | 0 | 29 | 29 | 0 | 0 |
| Investments in infrastructure funds | 0 | 0 | 0 | 92,007 | 0 | 0 | 0 | 92,007 | 0 | 0 |
| **Loans and receivables** | **711,805** | **0** | **0** | **0** | **0** | **-37,265** | **-8,260** | **666,280** | **4,453** | **0** |
| Debt instruments | 698,974 | 0 | 0 | 0 | 0 | 49,318 | -8,260 | 740,032 | 4,453 | 0 |
| Other investments | 12,831 | 0 | 0 | 0 | 0 | -86,583 | 0 | -73,752 | 0 | 0 |
| **Deposits with cedants** | **17,803** | **0** | **0** | **0** | **0** | **0** | **0** | **17,803** | **0** | **0** |
| **Total** | **16,430,741** | **-422,942** | **1,946,439** | **1,378,367** | **-1,943,975** | **-154,224** | **-36,696** | **17,197,710** | **-6,630,921** | **-151,130** |

### Investment income by IFRS category

| 2017 (EUR) | Interest income | Change in fair value and gains on disposal of FVPL assets | Gains on disposal of other IFRS asset categories | Income from dividends and shares – other investments | Exchange gains | Other income | Total | Net unrealised gains on investments of life insurance policyholders who bear the investment risk |
|---|---|---|---|---|---|---|---|---|
| **Held to maturity** | **5,146,343** | **0** | **0** | **0** | **51,099** | **0** | **5,197,442** | **348,079** |
| Debt instruments | 5,146,343 | 0 | 0 | 0 | 51,099 | 0 | 5,197,442 | 348,079 |
| **At fair value through P/L** | **119,782** | **229,386** | **0** | **26,450** | **4,890** | **103,915** | **484,423** | **16,006,180** |
| Designated to this category | 119,782 | 229,386 | 0 | 26,450 | 4,890 | 103,915 | 484,423 | 16,006,180 |
| Debt instruments | 119,782 | 116,337 | 0 | 0 | 4,890 | 1,835 | 242,844 | 1,145,080 |
| Equity instruments | 0 | 113,049 | 0 | 26,450 | 0 | 26,811 | 166,310 | 14,861,100 |
| Other investments | 0 | 0 | 0 | 0 | 0 | 75,269 | 75,269 | 0 |
| **Available-for-sale** | **12,673,321** | **0** | **3,121,822** | **1,114,983** | **3,981,586** | **14,170** | **20,905,882** | **468,816** |
| Debt instruments | 12,673,321 | 0 | 2,581,179 | 0 | 3,981,586 | 10,591 | 19,246,677 | 452,339 |
| Equity instruments | 0 | 0 | 493,505 | 1,114,983 | 0 | 3,579 | 1,612,067 | 16,477 |
| Other investments | 0 | 0 | 47,138 | 0 | 0 | 0 | 47,138 | 0 |
| **Loans and receivables** | **623,466** | **0** | **511** | **0** | **165,139** | **25,637** | **814,753** | **26,309** |
| Debt instruments | 593,129 | 0 | 511 | 0 | 109,733 | 25,637 | 729,010 | 26,309 |
| Other investments | 30,337 | 0 | 0 | 0 | 55,406 | 0 | 85,743 | 0 |
| **Financial investments of reinsurers i.r.o. reinsurance contracts with cedants** | **44,415** | **0** | **0** | **0** | **0** | **0** | **44,415** | **0** |
| **Total** | **18,607,327** | **229,386** | **3,122,333** | **1,141,433** | **4,202,714** | **143,722** | **27,446,915** | **16,849,384** |

Investment expenses by IFRS category

| 2017 (EUR) | Interest expenses | Change in fair value and losses on disposal of FVPL assets | Losses on disposal of other IFRS asset categories | Impairment losses on investments | Exchange losses | Other | Total | Net unrealised losses on investments of life insurance policyholders who bear the investment risk |
|---|---|---|---|---|---|---|---|---|
| **Held to maturity** | **0** | **0** | **0** | **0** | **110,620** | **0** | **110,620** | **0** |
| Debt instruments | 0 | 0 | 0 | 0 | 110,620 | 0 | 110,620 | 0 |
| **At fair value through P/L** | **0** | **79,645** | **0** | **0** | **107,922** | **35,748** | **223,315** | **8,237,919** |
| Designated to this category | 0 | 79,645 | 0 | 0 | 107,922 | 35,748 | 223,315 | 8,237,919 |
| Debt instruments | 0 | 3,322 | 0 | 0 | 104,380 | 8,554 | 116,256 | 556,481 |
| Equity instruments | 0 | 76,323 | 0 | 0 | 3,542 | 27,194 | 107,059 | 7,681,438 |
| **Available-for-sale** | **0** | **0** | **584,859** | **320,000** | **9,616,244** | **2,440** | **10,523,543** | **18,497** |
| Debt instruments | 0 | 0 | 515,698 | 0 | 9,616,244 | 2,018 | 10,133,960 | 18,397 |
| Equity instruments | 0 | 0 | 69,161 | 320,000 | 0 | 422 | 389,583 | 100 |
| **Loans and receivables** | **522** | **0** | **0** | **0** | **299,292** | **15,914** | **315,728** | **0** |
| Debt instruments | 0 | 0 | 0 | 0 | 72,849 | 15,914 | 88,763 | 0 |
| Other investments | 522 | 0 | 0 | 0 | 226,443 | 0 | 226,965 | 0 |
| **Subordinated liabilities** | **718,338** | **0** | **0** | **0** | **0** | **0** | **718,338** | **0** |
| **Total** | **718,860** | **79,645** | **584,859** | **320,000** | **10,134,078** | **54,102** | **11,891,544** | **8,256,416** |

## Net investment income

| 2017 (EUR) | Interest income/ expenses | Change in fair value and gains/losses on disposal of FVPL assets | Gains/losses on disposal of other IFRS asset categories | Income from dividends and shares – other investments | Impairment losses on investments | Foreign exchange gains/losses | Other income/ expenses | Total | Net unrealised gains/ losses on investments of life insurance policyholders who bear the investment risk |
|---|---|---|---|---|---|---|---|---|---|
| **Held to maturity** | **5,146,343** | **0** | **0** | **0** | **0** | **-59,521** | **0** | **5,086,822** | **348,079** |
| Debt instruments | 5,146,343 | 0 | 0 | 0 | 0 | -59,521 | 0 | 5,086,822 | 348,079 |
| **At fair value through P/L** | **119,782** | **149,741** | **0** | **26,450** | **0** | **-103,032** | **68,167** | **261,108** | **7,768,261** |
| Designated to this category | 119,782 | 149,741 | 0 | 26,450 | 0 | -103,032 | 68,167 | 261,108 | 7,768,261 |
| Debt instruments | 119,782 | 113,015 | 0 | 0 | 0 | -99,490 | -6,719 | 126,588 | 588,599 |
| Equity instruments | 0 | 36,726 | 0 | 26,450 | 0 | -3,542 | -383 | 59,251 | 7,179,662 |
| Other investments | 0 | 0 | 0 | 0 | 0 | 0 | 75,269 | 75,269 | 0 |
| **Available-for-sale** | **12,673,321** | **0** | **2,536,963** | **1,114,983** | **-320,000** | **-5,634,658** | **11,730** | **10,382,339** | **450,319** |
| Debt instruments | 12,673,321 | 0 | 2,065,481 | 0 | 0 | -5,634,658 | 8,573 | 9,112,717 | 433,942 |
| Equity instruments | 0 | 0 | 424,344 | 1,114,983 | -320,000 | 0 | 3,157 | 1,222,484 | 16,377 |
| Other investments | 0 | 0 | 47,138 | 0 | 0 | 0 | 0 | 47,138 | 0 |
| **Loans and receivables** | **622,944** | **0** | **511** | **0** | **0** | **-134,153** | **9,723** | **499,025** | **26,309** |
| Debt instruments | 593,129 | 0 | 511 | 0 | 0 | 36,884 | 9,723 | 640,247 | 26,309 |
| Other investments | 29,815 | 0 | 0 | 0 | 0 | -171,037 | 0 | -141,222 | 0 |
| **Deposits with cedants** | **44,415** | **0** | **0** | **0** | **0** | **0** | **0** | **44,415** | **0** |
| **Subordinated liabilities** | **-718,338** | **0** | **0** | **0** | **0** | **0** | **0** | **-718,338** | **0** |
| **Total** | **17,888,467** | **149,741** | **2,537,474** | **1,141,433** | **-320,000** | **-5,931,364** | **89,620** | **15,555,371** | **8,592,968** |

In 2018, interest income from impaired investments totalled EUR 1,427 (2017: EUR 1,002).

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### Investment income and expenses by source of funds

The Group records investment income and expenses separately by source of funds, i.e. separately for own fund assets, non-life insurance register assets and life insurance register assets. Own fund investments support the Group's shareholder funds; non-life insurance register assets support technical provisions relating to non-life business, while life insurance register assets support technical provisions relating to life insurance business.

#### Investment income – non-life insurance business

| (EUR) | Liability fund 2018 | Liability fund 2017 |
|---|---|---|
| Interest income | 9,039,389 | 9,911,757 |
| Change in fair value and gains on disposal of FVPL assets | 138,403 | 81,976 |
| Gains on disposal of other IFRS asset categories | 1,402,696 | 1,799,602 |
| Income from dividends and shares – other investments | 659,996 | 580,806 |
| Exchange gains | 6,281,481 | 3,954,061 |
| Other income | 11,824 | 31,342 |
| **Total investment income – liability fund** | **17,533,789** | **16,359,544** |
| | **Capital fund 2018** | **Capital fund 2017** |
| Interest income | 327,418 | 436,925 |
| Change in fair value and gains on disposal of FVPL assets | 14,071 | 0 |
| Gains on disposal of other IFRS asset categories | 259,501 | 450,329 |
| Income from dividends and shares – other investments | 465,246 | 286,723 |
| Exchange gains | 2,088 | 18,264 |
| Other income | 1,004 | 116 |
| **Total investment income - capital fund** | **1,069,328** | **1,192,357** |
| **Total investment income – non-life business** | **18,603,117** | **17,551,901** |

#### Investment income – life insurance business

| (EUR) | Long-term business fund 2018 | Long-term business fund 2017 |
|---|---|---|
| Interest income | 6,135,074 | 7,218,224 |
| Change in fair value and gains on disposal of FVPL assets | 9,487 | 19,297 |
| Gains on disposal of other IFRS asset categories | 259,112 | 686,270 |
| Income from dividends and shares – other investments | 247,023 | 270,970 |
| Exchange gains | 107,559 | 215,078 |
| Other income | 5,727 | 30,941 |
| **Total investment income – liability fund** | **6,763,982** | **8,440,780** |
| | **Capital fund 2018** | **Capital fund 2017** |
| Interest income | 957,305 | 1,040,421 |
| Change in fair value and gains on disposal of FVPL assets | 51,722 | 128,113 |
| Gains on disposal of other IFRS asset categories | 330,477 | 186,132 |
| Income from dividends and shares – other investments | 6,102 | 2,934 |
| Exchange gains | 25,416 | 15,311 |
| Other income | 64,040 | 81,323 |
| **Total investment income - capital fund** | **1,435,062** | **1,454,234** |
| **Total investment income – life business** | **8,199,044** | **9,895,014** |

| | | |
|---|---|---|
| **Total investment income** | **26,802,161** | **27,446,915** |

### Expenses for financial assets and liabilities – non-life business

| (EUR) | Liability fund 2018 | Liability fund 2017 |
|---|---|---|
| Interest expenses | 28,444 | 522 |
| Change in fair value and losses on disposal of FVPL assets | 328,135 | 76,271 |
| Losses on disposal of other IFRS asset categories | 219,621 | 383,567 |
| Impairment losses on investments | 1,943,974 | 0 |
| Exchange losses | 6,319,618 | 9,561,654 |
| Other | 9,984 | 9,030 |
| **Total investment expenses – liability fund** | **8,849,776** | **10,031,044** |
| | **Capital fund 2018** | **Capital fund 2017** |
| Interest expenses | 0 | 718,338 |
| Change in fair value and losses on disposal of FVPL assets | 82,692 | 0 |
| Losses on disposal of other IFRS asset categories | 29,136 | 14,504 |
| Impairment losses on investments | 0 | 320,000 |
| Exchange losses | 1,518 | 5,933 |
| Other | 0 | 488 |
| **Total investment expenses – capital fund** | **113,346** | **1,059,263** |
| **Total investment expenses – non-life business** | **8,963,122** | **11,090,307** |

### Expenses for financial assets and liabilities – life business

| (EUR) | Long-term business fund 2018 | Long-term business fund 2017 |
|---|---|---|
| Losses on disposal of other IFRS asset categories | 45,702 | 158,909 |
| Exchange losses | 218,919 | 356,046 |
| Other | 31,970 | 44,303 |
| **Total investment expenses – liability fund** | **296,591** | **559,258** |
| | **Capital fund 2018** | **Capital fund 2017** |
| Change in fair value and losses on disposal of FVPL assets | 225,799 | 3,374 |
| Losses on disposal of other IFRS asset categories | 10,888 | 27,879 |
| Impairment losses on investments | 1 | 0 |
| Exchange losses | 30,713 | 210,445 |
| Other | 77,337 | 281 |
| **Total investment expenses – capital fund** | **344,738** | **241,979** |
| **Total investment expenses – life business** | **641,329** | **801,237** |
| | | |
| **Total investment expenses** | **9,604,451** | **11,891,544** |
| | | |
| **Net investment income** | **17,197,710** | **15,555,371** |

### Net investment income from non-life and life business

| (EUR) | 2018 | 2017 |
|---|---|---|
| Non-life insurance business | 9,639,995 | 6,461,594 |
| Life insurance business | 7,557,715 | 9,093,777 |
| **Total** | **17,197,710** | **15,555,371** |

| (EUR) | Long-term business fund 2018 | Long-term business fund 2017 |
|---|---|---|
| Net unrealised gains on investments of life insurance policyholders who bear the investment risk | 16,867,324 | 16,849,384 |
| Net unrealised losses on investments of life insurance policyholders who bear the investment risk | 23,498,245 | 8,256,416 |
| **Net investment income** | **-6,630,921** | **8,592,968** |

### Impairment losses on investments

| (EUR) | 2018 | 2017 |
|---|---|---|
| Shares | 1,943,975 | 320,000 |

The 2018 investment return totalled EUR 17.2 million, up EUR 1.6 million from 2017. This is due to improved conditions in currency markets and the consequently lower effect of currency differences. Net negative currency differences totalled EUR 0.2 million in 2018, while in 2017 net negative currency differences totalled nearly EUR 6 million.

## 30) Other technical income and other income

### Other technical income

| (EUR) | 2018 | 2017 |
|---|---|---|
| Income from reinsurance commissions | 3,634,682 | 2,870,868 |
| Income on the realisation impaired receivables | 5,260,757 | 2,326,977 |
| Income from other insurance business | 2,922,073 | 2,218,763 |
| Exchange gains | 5,477,165 | 4,043,120 |
| Income from exit charges and management fees | 2,524,754 | 2,700,784 |
| Income from other services | 1,418,926 | 1,269,208 |
| **Total** | **21,238,357** | **15,429,720** |

In 2018 the Group continued to experience strong increases in both exchange gains and losses, primarily arising from reinsurance business.

Reinsurance commission income are a major part of other technical income. The following tables show reinsurance commission income by class of business.

### Income from reinsurance commission

| (EUR) | 2018 | 2017 |
|---|---|---|
| Personal accident | 18,405 | 23,434 |
| Health | 0 | 618 |
| Land vehicles casco | 199,530 | 65,593 |
| Railway rolling stock | 46 | 190 |
| Aircraft hull | 678 | 767 |
| Ships hull | 1,784 | 2,390 |
| Goods in transit | 29,060 | 11,511 |
| Fire and natural forces | 2,153,362 | 1,632,544 |
| Other damage to property | 780,990 | 606,065 |
| Motor liability | 19,051 | 199,540 |
| Aircraft liability | 9,755 | 11,346 |
| Liability for ships | 260 | 279 |
| General liability | 198,360 | 161,206 |
| Miscellaneous financial loss | 130,727 | 74,254 |
| Assistance | 14,812 | 19,652 |
| Life | 62,137 | 33,795 |
| Unit-linked life | 15,725 | 27,684 |
| **Total non-life** | **3,556,820** | **2,809,389** |
| **Total life** | **77,862** | **61,479** |
| **Total** | **3,634,682** | **2,870,868** |

### Other income

| (EUR) | 2018 | 2017 |
|---|---|---|
| Income on the realisation impaired receivables | 127,229 | 284,474 |
| Lease payments received from investment properties | 1,146,475 | 514,115 |
| Income from exit charges and management fees | 2,707,419 | 0 |
| Penalties and damages received | 658,539 | 731,142 |
| Income from disposal of investment property | 87,139 | 0 |
| Income from other services | 9,822,875 | 4,528,269 |
| **Total** | **14,549,676** | **6,058,000** |

The increase in the income from other services item is a result of the inclusion of TBS Team 24 and Sava Penzisko Društvo in the consolidated accounts, the income of which is recognised in this item.

## 31) Net claims incurred

### Net claims incurred

| (EUR) | Gross amounts | | Reinsurers' share of claims (–) | Co-insurers' share of claims (–) | Change in the gross claims provision (+/–) | Change in the reinsurers' and co-insurers' share of the claims provision (+/–) | Net claims incurred |
|---|---|---|---|---|---|---|---|
| 2018 | Claims | Recourse receivables | | | | | |
| Personal accident | 12,883,294 | -195 | -13,635 | 8,256 | -1,706,769 | -1,979 | 11,168,972 |
| Health | 4,759,234 | -3,358 | -410,221 | 0 | -207,654 | 126,919 | 4,264,920 |
| Land vehicles casco | 75,558,133 | -1,458,709 | -773,072 | 0 | -108,465 | -109,682 | 73,108,205 |
| Railway rolling stock | 559,088 | 0 | -13 | 0 | 28,184 | 0 | 587,259 |
| Aircraft hull | 1,545,571 | 0 | -450,851 | 0 | -963,543 | 228,663 | 359,840 |
| Ships hull | 3,497,028 | 0 | -5,004 | 0 | 3,496,955 | -144,696 | 6,844,283 |
| Goods in transit | 5,635,149 | -42,956 | -1,141 | 529,557 | -425,262 | -10,556 | 5,684,791 |
| Fire and natural forces | 51,816,661 | -46,734 | -6,146,771 | 206,849 | -4,722,167 | 960,551 | 42,068,389 |
| Other damage to property | 21,057,561 | -41,346 | -1,439,889 | 236,984 | -2,352,946 | 519,357 | 17,979,721 |
| Motor liability | 71,171,313 | -3,950,705 | -393,256 | 0 | -2,310,260 | -2,411,882 | 62,105,210 |
| Aircraft liability | -12,342 | 0 | -1,000 | 0 | 8,178 | -32,999 | -38,163 |
| Liability for ships | 347,362 | 0 | 0 | 0 | 3,498 | 3,315 | 354,175 |
| General liability | 5,700,905 | -7,403 | -143,145 | 30,749 | 751,147 | 445,177 | 6,777,430 |
| Credit | 2,421,429 | -2,819,237 | 0 | 0 | 175,623 | 0 | -222,185 |
| Suretyship | 72,638 | -7,000 | 0 | 0 | -164,293 | 0 | -98,655 |
| Miscellaneous financial loss | 875,522 | 0 | -82,675 | 30,033 | 56,587 | 212,274 | 1,091,741 |
| Legal expenses | 447 | 0 | 0 | 1,052 | -10,438 | 0 | -8,939 |
| Assistance | 5,564,313 | 492 | -3,504,361 | 0 | -366,617 | 709,617 | 2,403,444 |
| Life | 48,612,363 | 0 | -90,190 | 0 | -906,218 | 75,022 | 47,690,977 |
| Unit-linked life | 38,868,000 | 0 | -48,374 | 0 | -189,057 | 8,602 | 38,639,171 |
| **Total non-life** | **263,453,306** | **-8,377,151** | **-13,365,034** | **1,043,480** | **-8,818,242** | **494,079** | **234,430,438** |
| **Total life** | **87,480,363** | **0** | **-138,564** | **0** | **-1,095,275** | **83,624** | **86,330,148** |
| **Total** | **350,933,669** | **-8,377,151** | **-13,503,598** | **1,043,480** | **-9,913,517** | **577,703** | **320,760,586** |

| (EUR) 2017 | Gross amounts | | Reinsurers' share of claims (–) | Co-insurers' share of claims (–) | Change in the gross claims provision (+/–) | Change in the reinsurers' and co-insurers' share of the claims provision (+/–) | Net claims incurred |
|---|---|---|---|---|---|---|---|
| | Claims | Recourse receivables | | | | | |
| Personal accident | 11,980,148 | -1,132 | -16,116 | 15,343 | -587,439 | -8,504 | 11,382,301 |
| Health | 4,934,881 | -233 | -1,304 | 0 | 62,108 | -188,551 | 4,806,901 |
| Land vehicles casco | 66,611,262 | -1,194,184 | -965,206 | 0 | 224,020 | 630,039 | 65,305,930 |
| Railway rolling stock | 91,017 | 0 | -4 | 0 | 11,627 | 0 | 102,640 |
| Aircraft hull | 68,330 | 0 | -11,911 | 31,517 | 273,438 | -5,025 | 356,350 |
| Ships hull | 5,002,554 | -6 | -3,682 | 0 | 898,054 | -145,551 | 5,751,369 |
| Goods in transit | 3,541,459 | -6,225 | -20,569 | 298,971 | -415,075 | 13,105 | 3,411,666 |
| Fire and natural forces | 48,403,126 | -31,178 | -3,758,659 | 282,643 | 12,298,953 | 156,928 | 57,351,813 |
| Other damage to property | 18,500,727 | -47,393 | -3,507,086 | 196,233 | 2,007,004 | -1,107,887 | 16,041,598 |
| Motor liability | 66,049,470 | -3,144,820 | -909,180 | 0 | -9,282,149 | -1,535,948 | 51,177,373 |
| Aircraft liability | 42,562 | 0 | -40,395 | 0 | 5,413 | -29,594 | -22,014 |
| Liability for ships | 314,312 | -360 | -11 | 0 | -14,837 | -8 | 299,096 |
| General liability | 6,148,642 | -32,066 | -679,049 | 39,549 | -897,593 | 1,238,286 | 5,817,769 |
| Credit | 2,443,175 | -2,505,461 | -269 | 0 | -723,255 | 0 | -785,810 |
| Suretyship | 191,318 | -18 | 0 | 0 | 131,683 | 0 | 322,983 |
| Miscellaneous financial loss | 2,186,678 | -35 | -405,303 | 0 | -556,391 | 99,930 | 1,324,879 |
| Legal expenses | 1,165 | 0 | 0 | 1,099 | 8,484 | 0 | 10,748 |
| Assistance | 7,574,113 | -3,637 | -6,266,352 | 0 | -152,052 | 190,266 | 1,342,338 |
| Life | 33,490,258 | 0 | -61,794 | 0 | -79,804 | -55,855 | 33,292,805 |
| Unit-linked life | 39,118,711 | 0 | -64,993 | 0 | -280,229 | 39,097 | 38,812,586 |
| **Total non-life** | **244,084,939** | **-6,966,748** | **-16,585,096** | **865,355** | **3,291,993** | **-692,514** | **223,997,929** |
| **Total life** | **72,608,969** | **0** | **-126,787** | **0** | **-360,033** | **-16,758** | **72,105,391** |
| **Total** | **316,693,908** | **-6,966,748** | **-16,711,883** | **865,355** | **2,931,960** | **-709,272** | **296,103,320** |

The two tables above show gross claims incurred as including gross claims paid, gross recourse receivables and retrocession recoveries (including portions relating to recourse receivables). Net claims incurred additionally include movements in the net claims provision; it decreased net claims incurred by EUR 9.3 million (2017: increase in net claims incurred of EUR 2.2 million).

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### 32) Change in other technical provisions and change in the technical provision for policyholders who bear the investment risk

The change in other technical provisions relates to changes in the net provision for unexpired risks. The change in gross technical provisions is described in note 22.

### 33) Operating expenses

The Group classifies operating expenses by nature. Compared to 2017, operating expenses increased by 13.5%.

**Operating expenses by nature**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Acquisition costs (commissions) | 58,372,509 | 51,949,127 |
| Change in deferred acquisition costs | -1,598,536 | -2,389,002 |
| Depreciation/amortisation of operating assets | 5,254,010 | 7,525,357 |
| Personnel costs | 73,118,022 | 68,429,957 |
| - Salaries and wages | 52,725,570 | 49,999,192 |
| - Social and pension insurance costs | 8,578,891 | 8,204,067 |
| - Other personnel costs | 11,813,561 | 10,226,698 |
| Costs of services by natural persons not performing business, incl. of contributions | 484,764 | 457,816 |
| Other operating expenses | 42,500,668 | 30,989,073 |
| **Total** | **178,131,437** | **156,962,328** |

Other operating expenses rose following the consolidation of new Group companies which typically incur larger other operating expenses due to the nature of their business.

**Audit fees**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Audit of annual report | 263,732 | 264,905 |
| Other assurance services | 14,101 | 14,640 |
| Other audit services | 2,279 | 12,200 |
| **Total** | **280,112** | **291,745** |

### 34) Other technical expenses and other expenses

| (EUR) | 2018 | 2017 |
|---|---|---|
| Expenses for loss prevention activities and fire brigade charge | 3,387,535 | 3,365,303 |
| Contribution for covering claims of uninsured and unidentified vehicles and vessels | 1,282,145 | 1,402,836 |
| Exchange losses | 9,645,650 | 7,491,929 |
| Operating expenses from revaluation | 4,935,745 | 2,026,597 |
| Other expenses | 4,054,754 | 3,199,415 |
| **Total** | **23,305,829** | **17,486,080** |

Other technical expenses rose due to higher receivables write-downs of EUR 2.9 million and exchange losses of EUR 2.2 million.

Other expenses of EUR 2.9 million (2017: EUR 2.8 million) include contributions relating to the costs of the supervisory authority, allowance for other receivables, health protection contributions and fees for access to electronic police records.

### 35) Income tax expense

**Tax rate reconciliation**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Profit/loss before tax | 55,260,572 | 39,880,983 |
| Income tax expenses at statutory tax rate (19%) | 10,499,509 | 7,577,387 |
| Adjustment to the actual rates | 6,571,773 | 6,014,182 |
| Tax effect of income that is deducted for tax purposes | -6,801,659 | -4,948,544 |
| Tax effect of expenses not deducted for tax purposes | 2,716,638 | 1,011,587 |
| Tax effect of income that is added for tax purposes | -171,152 | -88,891 |
| Income or expenses relating to tax relief | -501,724 | -430,352 |
| Other | -64,662 | -349,294 |
| **Total income tax expense in the income statement** | **12,248,723** | **8,786,075** |
| Effective tax rate | 22.17% | 22.03% |

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## 17.9 Notes to the consolidated financial statements – cash flow statement

**36) Notes to the cash flow statement, which has been prepared using the indirect method.**

The cash flow statement shown in section 16.4 "Consolidated statement of cash flows" has been prepared in compliance with statutory regulations. This note gives a reconciliation of net profit and cash flows from operating activities.

The table below presents income statement items not included in cash flow nor presented in other parts of the cash flow statement (other than in cash flow from operating activities).

| (EUR) | 2018 | 2017 |
|---|---|---|
| **Net profit/loss for the period** | **43,011,849** | **31,094,908** |
| **Non-monetary income statement items not included in cash flow:** | **-12,806,864** | **17,587,133** |
| - change in unearned premiums | 14,686,986 | 12,124,142 |
| - change in the provision for outstanding claims | 9,335,814 | -2,222,688 |
| - change in other technical provisions | -13,207,584 | 2,179,849 |
| - change in technical provisions for policyholders who bear the investment risk | -15,962,680 | 1,121,327 |
| - operating expenses – amortisation/depreciation and change in deferred acquisition cost | 3,655,474 | 5,136,355 |
| - impairment losses on financial assets | -11,314,874 | -751,852 |
| **Eliminated investment income items** | **-17,837,553** | **-19,748,760** |
| - interest received disclosed under B. a) 1. | -16,459,186 | -18,607,327 |
| - receipts from dividends and shares in profit of others disclosed under B. a) 2. | -1,378,367 | -1,141,433 |
| **Eliminated investment expense items** | **28,445** | **718,860** |
| - interest paid disclosed under C. b) 1. | 28,445 | 718,860 |
| **Cash flows from operating activities – income statement items** | **12,395,876** | **29,652,140** |

## 17.10 Contingent receivables and liabilities

The Group has contingent liabilities arising out of guarantees given. The related estimated amount of contingent liabilities for alternative funds totalled EUR 21.7 million and EUR 4.2 million for other guarantees.

The Group has contingent liabilities from unrealised recourse receivables of EUR 29.1 million and claims against issuing banks for subordinated financial instruments of EUR 38.0 million.

Off-balance sheet items are shown in the appendix hereto.

## 17.11 Related party disclosures

The Group makes separate disclosures for the following groups of related parties:

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

### Owners and related enterprises

The Group's largest shareholder is Slovenian Sovereign Holding with a 17.7% stake.

**The members of the management and supervisory boards, the audit committee and employees not subject to the tariff section of the collective agreement**

**Remuneration of management and supervisory board members, and of employees not subject to the tariff section of the collective agreement**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Management board | 698,458 | 620,246 |
| Payments to employees not subject to the tariff section of the collective agreement | 4,809,153 | 4,506,668 |
| Supervisory board | 131,377 | 111,606 |
| Supervisory board committees | 42,516 | 32,021 |
| **Total** | **5,681,504** | **5,270,541** |

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### Remuneration of management board members in 2018

| (EUR) | Gross salary – fixed amount | Gross salary – variable amount | Fringe benefits – insurance premiums | Fringe benefits – use of company car | Total |
|---|---|---|---|---|---|
| Marko Jazbec | 160,560 | 12,630 | 248 | 7,686 | 181,124 |
| Jošt Dolničar | 144,600 | 18,655 | 5,282 | 7,469 | 176,006 |
| Srečko Čebron | 152,592 | 12,189 | 5,244 | 5,620 | 175,645 |
| Polona Pirš Zupančič | 139,404 | 0 | 3,988 | 4,906 | 148,298 |
| Mateja Treven | 5,196 | 12,189 | 0 | 0 | 17,385 |
| **Total** | **602,352** | **55,663** | **14,762** | **25,681** | **698,458** |

### Remuneration of management board members in 2017

| (EUR) | Gross salary – fixed amount | Gross salary – variable amount | Fringe benefits – insurance premiums | Fringe benefits – use of company car | Total |
|---|---|---|---|---|---|
| Marko Jazbec | 101,831 | 0 | 134 | 4,281 | 106,246 |
| Jošt Dolničar | 150,440 | 14,912 | 5,582 | 8,664 | 179,599 |
| Srečko Čebron | 152,697 | 7,170 | 5,205 | 7,116 | 172,188 |
| Mateja Treven | 141,667 | 7,170 | 5,193 | 8,184 | 162,214 |
| **Total** | **546,635** | **29,253** | **16,114** | **28,245** | **620,246** |

### Liabilities to members of the management board based on gross remuneration

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Marko Jazbec | 13,280 | 13,280 |
| Jošt Dolničar | 11,950 | 11,950 |
| Srečko Čebron | 12,616 | 12,616 |
| Polona Pirš Zupančič | 11,950 | 0 |
| Mateja Treven | 0 | 11,950 |
| **Total** | **49,796** | **49,796** |

As at 31 December 2018, the Group had no receivables due from the management board members. Management board members are not remunerated for their functions in subsidiary companies.

### Remuneration of the supervisory board and its committees in 2018

| (EUR) | | Attendance fees | Remuneration for performing the function | Reimbursement of expenses and training | Fringe benefits | Total |
|---|---|---|---|---|---|---|
| **Supervisory board members** | | | | | | |
| Mateja Lovšin Herič | chair | 2,420 | 19,500 | 0 | 0 | 21,920 |
| Keith William Morris | deputy chair | 2,420 | 14,300 | 14,440 | 0 | 31,160 |
| Andrej Gorazd Kunstek | member | 2,420 | 13,000 | 93 | 0 | 15,513 |
| Mateja Živec | member | 2,145 | 13,000 | 81 | 0 | 15,226 |
| Davor Ivan Gjivoje | member | 2,475 | 13,000 | 16,423 | 0 | 31,898 |
| Andrej Kren | member | 2,420 | 13,000 | 240 | 0 | 15,660 |
| **Total supervisory board members** | | **14,300** | **85,800** | **31,277** | **0** | **131,377** |
| **Audit committee members** | | | | | | |
| Andrej Kren | chairman | 1,980 | 4,875 | 194 | 0 | 7,049 |
| Mateja Lovšin Herič | member | 1,980 | 3,250 | 0 | 0 | 5,230 |
| Ignac Dolenšek | external member | 0 | 9,450 | 714 | 0 | 10,164 |
| **Total audit committee members** | | **3,960** | **17,575** | **908** | **0** | **22,443** |
| **Members of the nominations and remuneration committee** | | | | | | |
| Mateja Lovšin Herič | chair | 660 | 0 | 0 | 0 | 660 |
| Keith William Morris | member | 660 | 0 | 0 | 0 | 660 |
| Davor Ivan Gjivoje | member | 220 | 0 | 0 | 0 | 220 |
| Andrej Kren | member | 660 | 0 | 0 | 0 | 660 |
| **Total nominations committee members** | | **2,200** | **0** | **0** | **0** | **2,200** |
| **Fit & proper committee members** | | | | | | |
| Mateja Živec | chair | 0 | 0 | 0 | 0 | 0 |
| Mateja Lovšin Herič | member | 0 | 0 | 0 | 0 | 0 |
| Keith William Morris | member | 0 | 0 | 0 | 0 | 0 |
| Andrej Kren | alternate member | 0 | 0 | 0 | 0 | 0 |
| **Total fit & proper committee members** | | **0** | **0** | **0** | **0** | **0** |
| **Members of the risk committee** | | | | | | |
| Keith William Morris | chairman | 1,100 | 4,875 | 0 | 0 | 5,975 |
| Davor Ivan Gjivoje | member | 1,628 | 3,521 | 0 | 0 | 5,149 |
| Slaven Mićković | external member | 0 | 6,750 | 0 | 0 | 6,750 |
| **Total risk committee members** | | **2,728** | **15,146** | **0** | **0** | **17,874** |

**Remuneration of the supervisory board and its committees in 2017**

| (EUR) | | Attendance fees | Remuneration for performing the function | Reimbursement of expenses and training | Fringe benefits | Total |
|---|---|---|---|---|---|---|
| **Supervisory board members** | | | | | | |
| Mateja Lovšin Herič | chair | 2,970 | 18,958 | 183 | 0 | 22,111 |
| Slaven Mićković | deputy chair (until 15/07/2017) | 1,595 | 7,727 | 0 | 0 | 9,322 |
| Keith William Morris | deputy chair (since 16/08/2017) | 2,970 | 13,489 | 10,013 | 1,069 | 27,541 |
| Andrej Gorazd Kunstek | member | 2,970 | 13,000 | 0 | 0 | 15,970 |
| Mateja Živec | member | 2,970 | 13,000 | 0 | 0 | 15,970 |
| Davor Ivan Gjivoje | member (since 07/03/2017) | 2,640 | 10,624 | 0 | 0 | 13,264 |
| Andrej Kren | member (since 16/07/2017) | 1,375 | 5,976 | 77 | 0 | 7,428 |
| **Total supervisory board members** | | **17,490** | **82,773** | **10,273** | **1,069** | **111,606** |
| **Audit committee members** | | | | | | |
| Andrej Kren | chair (since 16/08/2017) | 880 | 1,835 | 97 | 0 | 2,812 |
| Slaven Mićković | chair (until 15/07/2017) | 1,320 | 2,634 | 0 | 0 | 3,954 |
| Mateja Lovšin Herič | member | 2,200 | 2,979 | 0 | 0 | 5,179 |
| Ignac Dolenšek | external member | 0 | 10,125 | 467 | 0 | 10,592 |
| **Total audit committee members** | | **4,400** | **17,573** | **564** | **0** | **22,537** |
| **Members of the nominations and remuneration committee** | | | | | | |
| Mateja Lovšin Herič | chair | 880 | 0 | 0 | 0 | 880 |
| Slaven Mićković | member (until 15/07/2017) | 660 | 0 | 0 | 0 | 660 |
| Keith William Morris | member (since 24/08/2017) | 880 | 0 | 0 | 0 | 880 |
| Davor Ivan Gjivoje | member (since 24/08/2017) | 176 | 0 | 0 | 0 | 176 |
| Andrej Kren | member (since 24/08/2017) | 220 | 0 | 0 | 0 | 220 |
| **Total nominations committee members** | | **2,816** | **0** | **0** | **0** | **2,816** |
| **Fit & proper committee members** | | | | | | |
| Mateja Živec | chair (since 24/08/2017) | 616 | 0 | 0 | 0 | 616 |
| Mateja Lovšin Herič | member (until 15/07/2017) | 220 | 0 | 0 | 0 | 220 |
| Keith William Morris | member (since 24/08/2017) | 220 | 0 | 0 | 0 | 220 |
| Nika Matjan | external member | 0 | 0 | 0 | 0 | 0 |
| Andrej Kren | alternate member (since 24/08/2017) | 176 | 0 | 0 | 0 | 176 |
| **Total fit & proper committee members** | | **1,232** | **0** | **0** | **0** | **1,232** |
| **Members of the risk committee** | | | | | | |
| Keith William Morris | chair (since 24/08/2017) | 440 | 1,730 | 0 | 0 | 2,170 |
| Davor Ivan Gjivoje | member (since 24/08/2017) | 396 | 882 | 0 | 0 | 1,278 |
| Slaven Mićković | external member (since 24/08/2017) | 0 | 1,988 | 0 | 0 | 1,988 |
| **Total risk committee members** | | **836** | **4,600** | **0** | **0** | **5,436** |

### Liabilities to members of the supervisory board and audit committee of the supervisory board based on gross remuneration

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Mateja Lovšin Herič | 0 | 2,391 |
| Slaven Mićković | 350 | 788 |
| Andrej Gorazd Kunstek | 0 | 1,358 |
| Keith William Morris | 0 | 3,714 |
| Mateja Živec | 0 | 1,358 |
| Davor Ivan Gjivoje | 0 | 1,534 |
| Andrej Kren | 0 | 2,023 |
| Ignac Dolenšek | 0 | 844 |
| **Total** | **350** | **14,011** |

### Employee remuneration not subject to the tariff section of the collective agreement for 2018

| (EUR) | Gross salary – fixed amount | Gross salary – variable amount | Fringe benefits and other benefits | Total |
|---|---|---|---|---|
| Individual employment contracts | 4,272,818 | 389,871 | 146,465 | 4,809,153 |

### Employee remuneration not subject to the tariff section of the collective agreement for 2017

| (EUR) | Gross salary – fixed amount | Gross salary – variable amount | Fringe benefits and other benefits | Total |
|---|---|---|---|---|
| Individual employment contracts | 4,189,932 | 173,658 | 143,078 | 4,506,668 |

### Receivables due from the state and majority state-owned companies

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Interests in companies | 9,641,217 | 9,645,208 |
| Debt securities and loans | 168,175,326 | 203,987,529 |
| Receivables due from policyholders | 94,606 | 126,693 |
| **Total** | **177,911,149** | **213,759,429** |

### Liabilities to the state and majority state-owned companies

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Liabilities for shares in claims | 9,041 | 19,478 |

### Income and expenses relating to majority state-owned companies

| (EUR) | 2018 | 2017 |
|---|---|---|
| Dividend income | 583,434 | 565,389 |
| Interest income | 6,237,105 | 7,992,652 |
| Gross premiums written | 10,631,231 | 12,986,211 |
| Gross claims payments | -5,056,417 | -3,529,952 |
| **Total** | **12,395,352** | **18,014,300** |

### Characteristics of loans granted to subsidiaries

| (EUR) Borrower | Principal | Type of loan | Maturity | Interest rate |
|---|---|---|---|---|
| Sava Neživotno Osiguranje (SRB) | 500,000 | ordinary | 30/06/2019 | 3.50% |
| Sava Neživotno Osiguranje (SRB) | 800,000 | ordinary | 15/07/2020 | 3.00% |
| Illyria | 642,000 | ordinary | 15/07/2022 | 3.00% |
| Sava Terra | 15,000 | ordinary | 11/12/2019 | 1.00% |
| Sava Terra | 499,500 | ordinary | 02/02/2021 | 1.50% |
| **Total** | **2,456,500** | | | |

# 18 Significant events after the reporting date

On 27 February 2019, Zavarovalnica Sava satisfied all suspensive conditions and became the sole owner of the Croatian companies ERGO Osiguranje d.d. and ERGO Životno Osiguranje d.d.

# Partnership

**We build sincere and meaningful partnerships. Everywhere and with everyone.**

# Sava Re business report

Sava Re, the controlling company of the Sava Re Group, transacts reinsurance business in over 100 countries worldwide[121]. The opening sections of the Sava Re Group annual report cover the presentation of the Group, the POSR share and share trading, the report of the supervisory board, the corporate governance statement pursuant to article 70 of the Slovenian Companies Act, a description of the internal control systems, external audit, mission, vision, policies of the Company and the Group, and the business environment. All the above sections relate both to Sava Re and the Sava Re Group. The following business report of Sava Re discusses the Company in terms of its core business with a focus on the notes to its separate financial statements.

[121] GRI 102-6

# 19 Global non-life reinsurance markets[122]

## Reinsurance outlook

- The sector is facing weak business conditions, as the influx of alternative capital continues to challenge reinsurers' business models.
- Revised 2018–2019 earnings forecast slightly upward following modest reinsurance price increases, with an expected combined ratio of 96%–99% and a return on equity of 7%–9%.
- Robust capitalization, strong enterprise risk management, and still-rational underwriting continue to support Standard & Poor's stable outlook on the global reinsurance sector.

## Cost of capital

- The cost of capital has consistently fallen in recent years, but appears to have reached a floor at end-2016.
- S&P estimates reinsurers' profitability is likely to barely exceed their cost of capital in 2018 and 2019.
- The tide of cheaper alternative capital continues to compete with traditional players, who typically have a higher cost of capital.
- Despite these challenges to industry fundamentals, market valuations for listed reinsurers remain at decade-long highs.

## Catastrophe risk

- On average, reinsurers' property catastrophe risk appetite at a 1-in-250-year return period rose only slightly, to 31% of shareholder equity, but S&P have seen increases or reductions by up to 10 percentage points for some reinsurers.
- The top-20 reinsurers in aggregate expect a catastrophe budget of about USD 11 billion or 8% of the combined ratio for 2018. If not exceeded, this should enable the sector to report pre-tax profits of about USD 21 billion in 2018, reflecting a consolidated buffer of about USD 32 billion before capital would be hit in a natural catastrophe stress scenario.

## Capital adequacy

- In 2017, the top-20 global reinsurers lost their capital redundancy at the "AAA" confidence level within S&P's capital model for the first time since the 2008 financial crisis.
- Although lower than in previous years, capital adequacy remained a strength in 2017, and was redundant by 7% at the "AA" confidence level.
- Reinsurers have gradually shifted their underwriting appetite to primary and proportional reinsurance business.
- Liability risks continue to dominate the top-20 global reinsurers' capital consumption.
- Catastrophe losses in 2017 weighed on reserve risk, while investment risk has been fairly stable.
- If 2018 ends up being an average catastrophe year, it is not implausible to assume that the top-20 global reinsurers could regain their "AAA" capital-isation.

[122] Summarised based Standard & Poor's: Global Reinsurance Highlights 2018.

# 20 Sava Re review of operations

## 20.1 Sava Re review of operations

### 20.1.1 Net premiums earned

Gross premiums written by geographical area

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Slovenia | 58,213,627 | 52,943,926 | 110.0 |
| International | 93,422,589 | 100,275,826 | 93.2 |
| Total | 151,636,216 | 153,219,752 | 99.0 |

5.6% p.p.

Net combined ratio improved

up 27%

Net profit

Net premiums earned

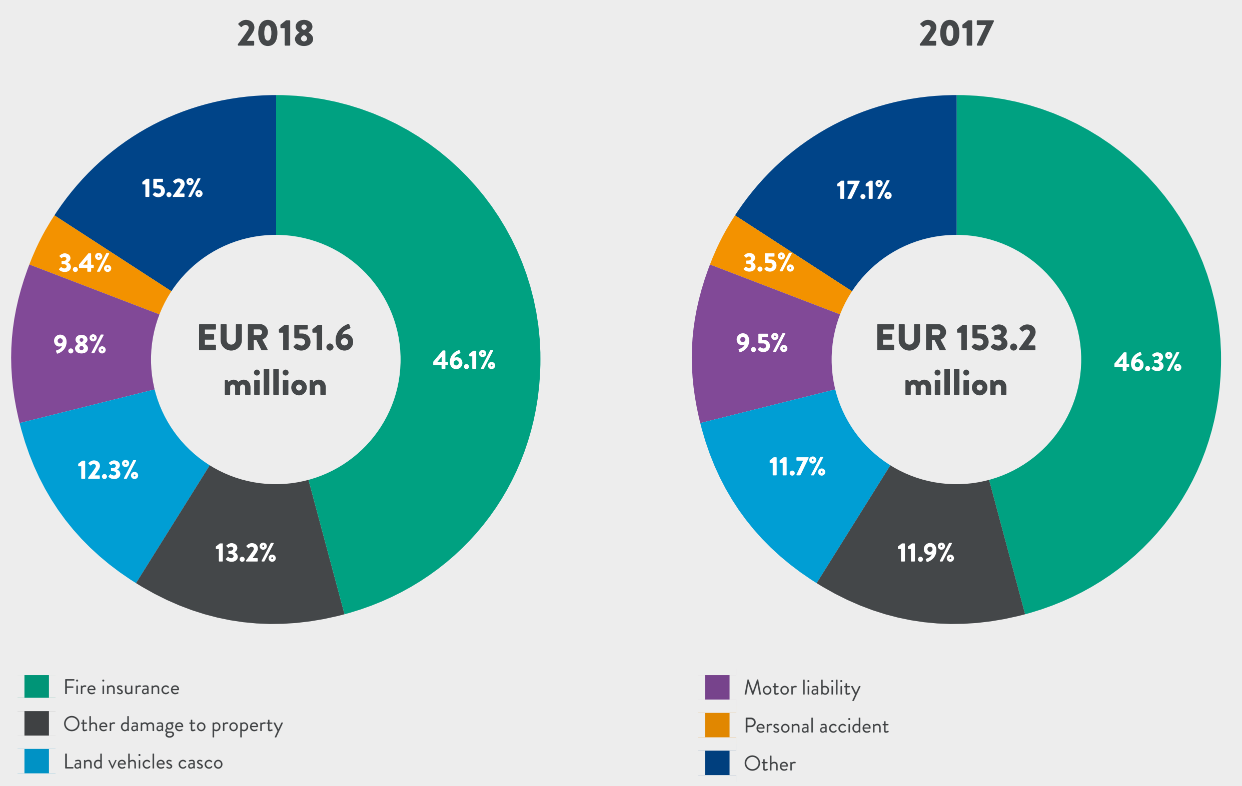
| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross premiums written | 151,636,216 | 153,219,752 | 99.0 |
| Net premiums written | 133,228,423 | 134,312,438 | 99.2 |
| Change in net unearned premiums | 511,755 | -3,447,819 | -14.8 |
| Net premiums earned | 133,740,178 | 130,864,620 | 102.2 |

In 2018 gross premiums written in Slovenia rose by 10.0%, or EUR 5.3 million, (increase in premiums written by Zavarovalnica Sava). This favourable premium growth is a result of growth in motor business (increase both in average premium and number of policies written), attraction of some new customers and growth in the portfolio of direct international business based on the freedom of services principle. Gross premiums written from abroad dropped by 6.8% or EUR 6.8 million. This was due to strict underwriting discipline during the soft market phase of the underwriting cycle and the related selective underwriting.

Despite the drop in gross premiums written, net premiums earned for the period were higher than in 2017. Net unearned premiums were lower than at year-end 2017, while the figure for last year was an increase from end of 2016. This trend is the result of a fall in gross premiums written abroad in 2018 and their growth in 2017.

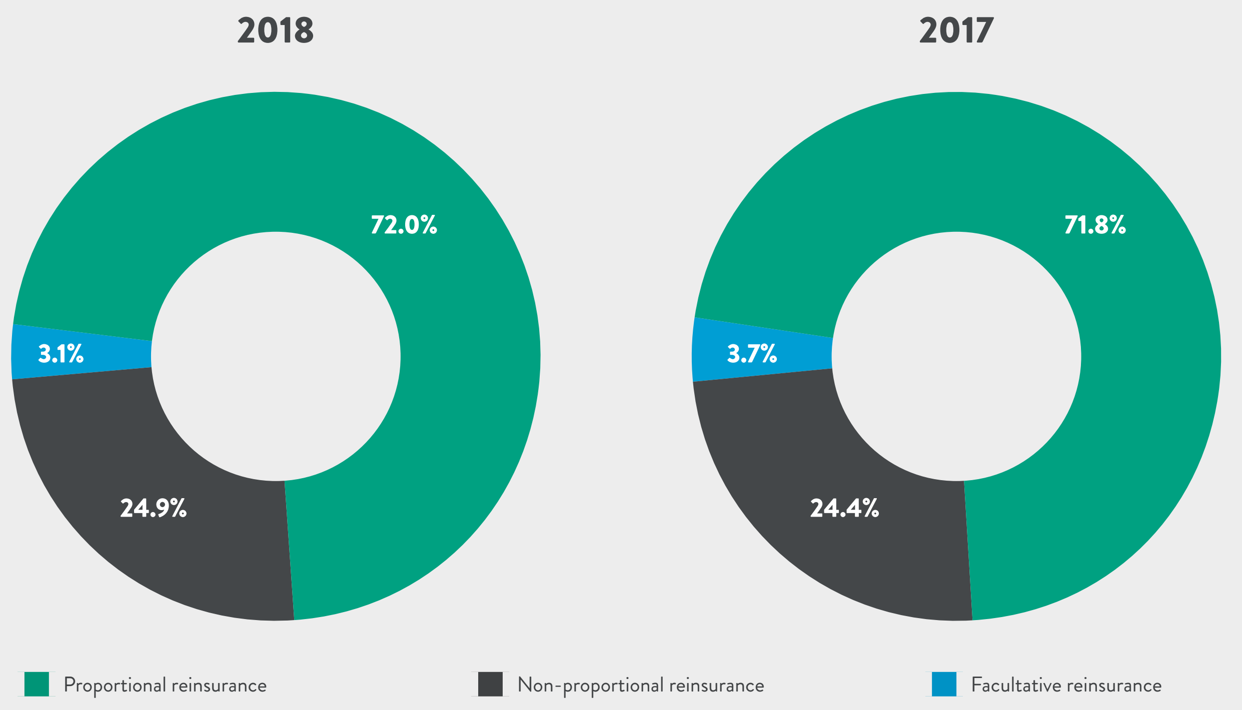
Fire business still accounted for the largest share of premiums in 2018, although its proportion shrank by 0.2 p.p. compared to 2017. Motor reinsurance business gained 0.9 p.p. in terms of gross premiums written.

Gross premiums written by class of business




The portfolio structure by form of reinsurance remained largely unchanged in 2018 compared to 2017.

Gross premiums written by form of reinsurance




Net earned premiums by class of business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Personal accident | 5,020,020 | 5,564,197 | 90.2 |
| Health | 145,556 | 3,262,263 | 4.5 |
| Land vehicles casco | 18,042,977 | 15,130,829 | 119.2 |
| Railway rolling stock | 133,430 | 191,209 | 69.8 |
| Aircraft hull | 717,912 | 120,235 | 597.1 |
| Ships hull | 5,048,640 | 4,772,144 | 105.8 |
| Goods in transit | 5,017,426 | 4,645,256 | 108.0 |
| Fire and natural forces | 59,438,026 | 59,298,562 | 100.2 |
| Other damage to property | 16,931,240 | 14,956,358 | 113.2 |
| Motor liability | 13,739,253 | 13,156,142 | 104.4 |
| Aircraft liability | 94,774 | 72,682 | 130.4 |
| Liability for ships | 716,639 | 694,773 | 103.1 |
| General liability | 6,982,392 | 6,574,571 | 106.2 |
| Credit | 936,293 | 793,486 | 118.0 |
| Suretyship | 8,990 | 262,793 | 3.4 |
| Miscellaneous financial loss | 413,946 | 925,433 | 44.7 |
| Legal expenses | 1,835 | 10,488 | 17.5 |
| Assistance | 17,888 | 19,339 | 92.5 |
| Life | 133,212 | 321,182 | 41.5 |
| Unit-linked life | 199,729 | 92,677 | 215.5 |
| **Total non-life** | **133,407,237** | **130,450,760** | **102.3** |
| **Total life** | **332,941** | **413,859** | **80.4** |
| **Total** | **133,740,178** | **130,864,620** | **102.2** |

## Net claims incurred[123]

### Gross premiums written by geographical area

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Slovenia | 28,899,976 | 28,634,946 | 100.9 |
| International | 53,787,702 | 54,890,503 | 98.0 |
| **Total** | **82,687,678** | **83,525,449** | **99.0** |

### Net claims incurred

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross claims paid | 82,687,678 | 83,525,449 | 99.0 |
| Net claims paid | 76,192,344 | 77,542,688 | 98.3 |
| Change in the net provision for outstanding claims | 412,289 | 1,041,278 | 39.6 |
| **Net claims incurred** | **76,604,633** | **78,583,967** | **97.5** |

### Net claims incurred, excluding the effect of exchange differences

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Gross claims paid | 82,687,678 | 83,525,449 | 99.0 |
| Net claims paid | 76,192,344 | 77,542,688 | 98.3 |
| Change in the net provision for outstanding claims | 710,859 | 7,250,466 | 9.8 |
| **Net claims incurred** | **76,903,203** | **84,793,155** | **90.7** |

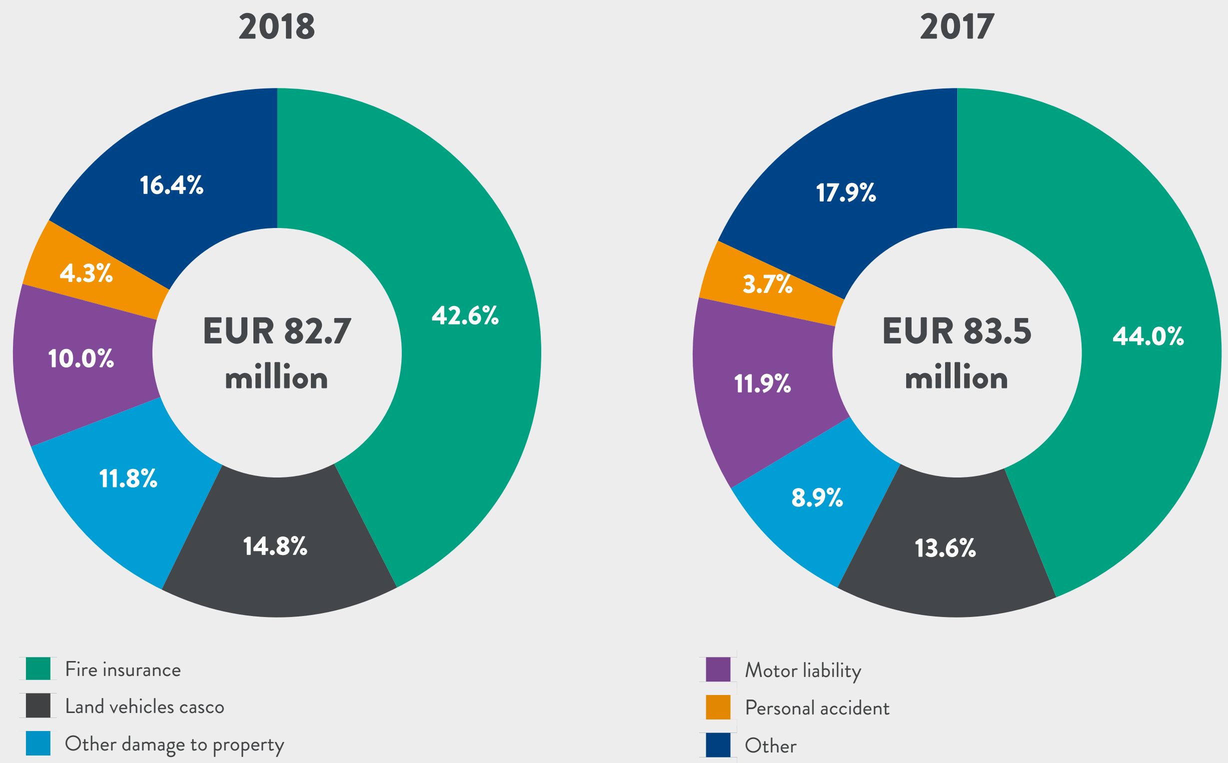
Net claims incurred dropped by 2.5% compared to 2017. In 2017, foreign exchange differences had a positive impact on claims earned of EUR 6.2 million. Therefore, the change (increase) in the net provisions for outstanding claims, excluding the effect of exchange differences, was lower in 2018 compared to the previous year. In 2017 more additional provisions were set aside for new loss events of the year (US storms, large individual loss events in Russia) than in 2018 (typhoon in Japan, floods in India).

As a result, the net incurred loss ratio of Sava Re in 2018 was a 2.7 p.p. improvement over 2017 and stood at 57.5%. Excluding the effect of exchange differences, the ratio improved by only 7.3 p.p.

Property claims remained the largest class of claims in 2018, the proportion of which increased by 0.2 p.p. compared to 2017. Motor reinsurance business lost 0.7 p.p.

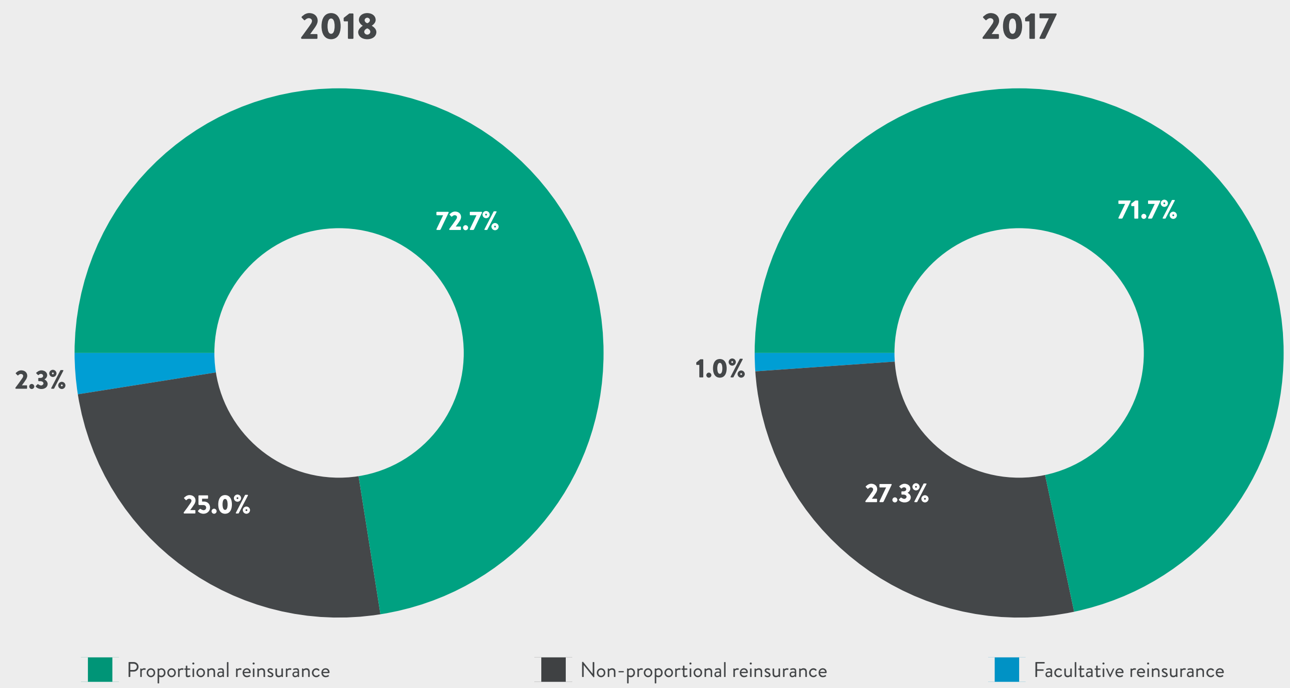
[123] GRI 201-2

### Gross claims paid by class of business




The composition of gross claims paid by form of reinsurance changed slightly. The share of proportional claims increased (EUR 0.2 million increase in gross claims paid), while the share of non-proportional claims declined (EUR 2.1 million drop in gross claims paid due to claims relating to hurricane Irma, which hit the Caribbean in September 2017).

### Gross claims paid by form of reinsurance



CONTENTS



Net claims incurred by class of business

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Personal accident | 2,011,630 | 2,394,364 | 84.0 |
| Health | -107,564 | 2,520,748 | -4.3 |
| Land vehicles casco | 12,242,884 | 10,624,022 | 115.2 |
| Railway rolling stock | 587,259 | 102,640 | 572.2 |
| Aircraft hull | 389,846 | 275,013 | 141.8 |
| Ships hull | 6,893,226 | 5,538,232 | 124.5 |
| Goods in transit | 5,032,859 | 2,846,093 | 176.8 |
| Fire and natural forces | 31,548,970 | 40,264,092 | 78.4 |
| Other damage to property | 8,819,464 | 5,698,517 | 154.8 |
| Motor liability | 5,994,892 | 5,343,270 | 112.2 |
| Aircraft liability | -28,940 | -18,992 | 47.6 |
| Liability for ships | 377,093 | 298,152 | 126.5 |
| General liability | 3,012,608 | 1,725,368 | 174.6 |
| Credit | -73,069 | -201,658 | 163.8 |
| Suretyship | -88,016 | 276,275 | -31.9 |
| Miscellaneous financial loss | 59,339 | 872,131 | 6.8 |
| Legal expenses | -1,396 | 874 | -159.7 |
| Assistance | -131 | 9,225 | -1.4 |
| Life | -107,649 | -21,342 | -304.4 |
| Unit-linked life | 41,325 | 36,942 | 111.9 |
| **Total non-life** | **76,670,957** | **78,568,367** | **97.6** |
| **Total life** | **-66,324** | **15,600** | **-425.2** |
| **Total** | **76,604,633** | **78,583,967** | **97.5** |

## Operating expenses

### Operating expenses

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| Acquisition costs | 34,848,052 | 33,185,632 | 105.0 |
| Change in deferred acquisition costs (+/-) | -43,433 | -880,778 | 195.1 |
| Other operating expenses | 12,758,699 | 10,808,271 | 118.0 |
| **Operating expenses** | **47,563,317** | **43,113,125** | **110.3** |
| Income from reinsurance commission | -2,530,359 | -1,934,678 | 69.2 |
| **Net operating expenses** | **45,032,959** | **41,178,446** | **109.4** |

Acquisition costs (commissions) rose 5.0% in 2018 despite a 1.0% drop in gross premiums written. Commission expenses increased as a result of writing more profitable business with higher commission rates, especially during the soft market phase in the reinsurance markets.

The share of acquisition costs as a percentage of gross premiums written increased by 1.3 p.p. year on year to 23.0%. The change in deferred acquisition costs (increase) was lower in 2018 than in 2017 due to less premiums written, leading to a lower amount of unearned premiums.

Other operating expenses rose by 18.0% compared to 2017, primarily due to the rise in personnel costs and costs of intellectual and personal services. The latter were mostly incurred in the preparations to implement new international financial reporting standards and in new strategic acquisitions carried out in 2018. Amortisation costs also increased reflecting higher costs of software. Expenses by nature are shown in note 30 of the notes to the financial statements.

The higher reinsurance commission income is primarily the result of increased commission income generated by Sava Re's retrocession business relating to reinsurance programmes of the Slovenian cedants. This effect relates to higher commissions from excess of loss reinsurance treaties: because of a benign claims development in 2017, Sava Re collected more commissions from its retrocessionaires.

## Net investment income

Net investment income relating to the investment portfolio of Sava Re totalled EUR 32.4 million in 2018 (2017: EUR 25.3 million), of which EUR 2.9 million related to financial investments, including investment property, and EUR 29.5 million to investments in subsidiaries.

The achieved net investment income also includes exchange gains relating to investments used by the Company for asset-liability matching in foreign currencies. However, the effect of exchange differences does not fully impact profit or loss since liabilities denominated in a foreign currency move in line with investments in that currency. For this reason, the net investment income and the investment return are also shown excluding foreign exchange differences. The total impact of exchange differences on the result is set out in the notes to the financial statements of the annual report, section 23.5.3.2.4 "Currency risk".

### Net investment income of the Sava Re investment portfolio

| (EUR) | 2018 | 2017 | Absolute change | Index |
|---|---|---|---|---|
| Income relating to financial investments, including investment property | 11,645,908 | 9,978,778 | 1,667,130 | 116.7 |
| Expenses relating to financial investments, including investment property* | 8,751,939 | 10,065,523 | -1,313,583 | 86.9 |
| **Net investment income relating to financial investments, including investment property** | **2,893,969** | **-86,744** | **2,980,713** | **-3,336.2** |
| Net investment income of financial investments in subsidiaries and associates | 29,537,916 | 26,136,830 | 3,401,086 | 113.0 |
| **Net investment income of the investment portfolio** | **32,431,885** | **26,050,086** | **6,381,799** | **124.5** |
| Expenses relating to financial liabilities | 0 | 718,338 | -718,338 | - |
| **Net investment income relating to the investment portfolio, including finance expenses** | **32,431,885** | **25,331,748** | **7,100,137** | **128.0** |
| **Net investment income of the investment portfolio, excluding the effect of exchange differences** | **32,528,406** | **30,815,289** | **1,713,117** | **105.6** |

Figures for 2017 differ from those published in the 2017 annual report as the figures then published did not include investment property data relating to depreciation of equipment.

After eliminating exchange differences, which did not have a significant impact in 2018, the return on the investment portfolio totalled EUR 32.5 million, an increase of EUR 1.7 million over 2017. The return strengthened largely due to higher income relating to the investment portfolio. The Company recognised impairment losses of EUR 4.0 on its subsidiaries and EUR 1.9 million on its financial investments in 2018. The following table gives additional details by group of income and expenses.

### Income, expenses and net investment income relating to the Sava Re investment portfolio

| (EUR) | 2018 | 2017 | Absolute change |
|---|---|---|---|
| **Income** | | | |
| Interest income | 3,589,693 | 3,895,944 | -306,250 |
| Change in fair value and gains on disposal of FVPL assets | 91,554 | 77,774 | 13,779 |
| Gains on disposal of other IFRS asset categories | 477,596 | 1,227,175 | -749,579 |
| Income of subsidiary and associate companies | 33,558,455 | 26,136,830 | 7,421,625 |
| Income from dividends and shares – other investments | 676,145 | 618,835 | 57,310 |
| Exchange gains | 6,112,531 | 3,822,729 | 2,289,802 |
| Other income | 698,390 | 336,322 | 362,068 |
| **Total income from the investment portfolio** | **45,204,363** | **36,115,608** | **9,088,755** |
| **Expenses** | | | |
| Interest expenses | 0 | 718,338 | -718,338 |
| Change in fair value and losses on disposal of FVPL assets | 217,937 | 76,271 | 141,666 |
| Losses on disposal of other IFRS asset categories | 125,388 | 130,028 | -4,641 |
| Expenses of subsidiary and associate companies | 4,020,539 | 0 | 4,020,539 |
| Impairment losses on investments | 1,943,974 | 320,000 | 1,623,974 |
| Exchange losses | 6,209,052 | 9,306,270 | -3,097,218 |
| Other | 255,589 | 232,953 | 22,636 |
| **Total expenses for the investment portfolio** | **12,772,479** | **10,783,860** | **1,988,618** |
| **Net investment income of the investment portfolio** | **32,431,885** | **25,331,748** | **7,100,137** |
| **Net investment income of the investment portfolio, excluding the effect of exchange differences** | **32,528,406** | **30,815,287** | **1,713,119** |
| **Return on the investment portfolio** | **6.9%** | **5.6%** | **1.3%** |
| **Return on the investment portfolio, excluding the effect of exchange differences** | **6.9%** | **6.8%** | **0.1%** |

Income/expenses include income/expenses relating to investment property. These are shown in the income statement under other income/expenses. Figures for 2017 differ from those published in the 2017 annual report as the figures then published did not include investment property data relating to depreciation of equipment.

The largest contribution to total 2018 income related to dividends received from the subsidiaries, totalling EUR 33.6 million, up EUR 7.4 million year on year. Compared to 2017, there was a minor rise in dividend distributions from financial investments in 2018. Interest income and realised gains on disposal of investments were somewhat more modest. In 2018 exchange gains totalled EUR 6.1 million (2017: EUR 3.8 million).

Compared to 2017, investment portfolio expenses increased by EUR 2.0 million. In 2018 investment expenses were mainly comprised of exchange losses of EUR 6.2 million (31/12/2017: EUR 9.3 million) and impairment losses on subsidiaries of EUR 4.0 million (no impairments were made in 2017) and impairment losses on financial investments of EUR 1.9 million (31/12/2017: EUR 0.3 million).

## 20.2 Financial position of Save Re

As at 31 December 2018, total assets of Sava Re stood at EUR 606.3 million, an increase of 4.4% over year-end 2017. Below we set out items of assets and liabilities in excess of 5% of total assets as at 31 December 2018, or items that changed by more than 2% of equity.

### 20.2.1 Assets

Total assets by type

| (EUR) | 31/12/2018 | As % of total 31/12/2018 | 31/12/2017 | As % of total 31/12/2017 |
|---|---|---|---|---|
| ASSETS | 606,331,055 | 100.0% | 580,886,180 | 100.0% |
| Intangible assets | 892,724 | 0.1% | 807,011 | 0.1% |
| Property, plant and equipment | 2,654,540 | 0.4% | 2,485,645 | 0.4% |
| Deferred tax assets | 1,867,370 | 0.3% | 1,238,826 | 0.2% |
| Investment property | 8,285,733 | 1.4% | 8,230,878 | 1.4% |
| Financial investments in Group companies and associates | 220,219,086 | 36.3% | 193,409,578 | 33.3% |
| Financial investments | 244,291,434 | 40.3% | 250,781,685 | 43.2% |
| Reinsurers' share of technical provisions | 21,437,221 | 3.5% | 20,073,571 | 3.5% |
| Receivables | 87,830,299 | 14.5% | 88,602,395 | 15.3% |
| Deferred acquisition costs | 7,821,932 | 1.3% | 7,778,499 | 1.3% |
| Other assets | 379,264 | 0.1% | 799,634 | 0.1% |
| Cash and cash equivalents | 10,651,452 | 1.8% | 6,678,458 | 1.1% |

#### 20.2.1.1 Financial investments in subsidiaries and associates and other financial investments

The investment portfolio consists of the following statement of financial position items: financial investments, investments in subsidiaries and associates, investment property, and cash and cash equivalents.

The Sava Re investment portfolio totalled EUR 483.4 million as at 31 December 2018 (31/12/2017: EUR 459.1 million).

Sava Re investment portfolio by asset class

| (EUR) | 31/12/2018 | 31/12/2017 | Absolute change | Index |
|---|---|---|---|---|
| Deposits | 2,331,604 | 2,398,614 | -67,010 | 97.2 |
| Government bonds | 120,886,760 | 116,313,865 | 4,572,895 | 103.9 |
| Corporate bonds | 98,023,199 | 108,365,328 | -10,342,129 | 90.5 |
| Shares | 8,720,953 | 10,399,227 | -1,678,274 | 83.9 |
| Mutual funds | 3,102,927 | 2,862,382 | 240,546 | 108.4 |
| Infrastructure funds | 1,860,608 | 0 | 1,860,608 | - |
| Loans granted | 3,090,072 | 4,609,924 | -1,519,852 | 67.0 |
| Deposits with cedants | 6,275,310 | 5,832,346 | 442,964 | 107.6 |
| Total financial investments | 244,291,434 | 250,781,685 | -6,490,252 | 97.4 |
| Financial investments in subsidiaries and associates | 220,219,086 | 193,409,578 | 26,809,508 | 113.9 |
| Investment property | 8,285,733 | 8,230,878 | 54,855 | 100.7 |
| Cash and cash equivalents | 10,651,452 | 6,678,458 | 3,972,993 | 159.5 |
| Total investment portfolio | 483,447,703 | 459,100,600 | 24,347,103 | 105.3 |

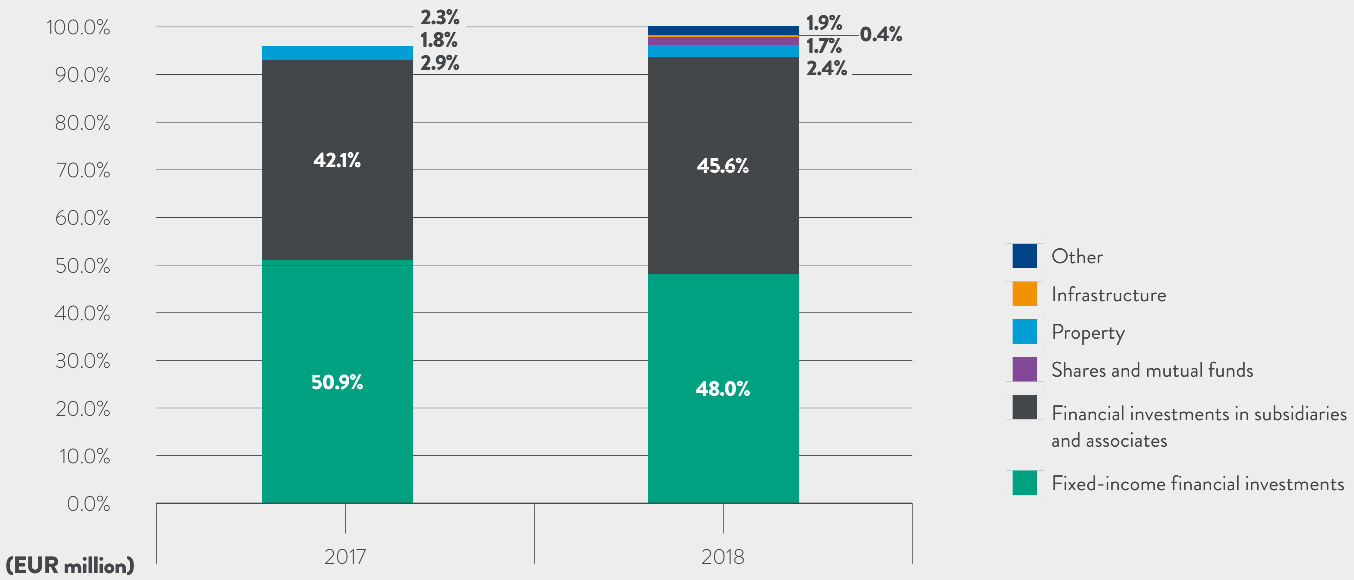
Compared to the previous year, the investment portfolio grew by EUR 24.3 million. This was mostly as the result of the following movements:

- + dividends received from subsidiaries (EUR 33.6 million),
- + cash inflow from core business (EUR 5.4 million),
- + change in accrued interest (EUR 3.6 million),
- + gains on disposal of investments (EUR 0.5 million),
- + dividend income from other investments (EUR 0.7 million),
- + change in the fair value reserve (EUR 1.1 million),
- + losses on disposal of investments (EUR 0.1 million),
- - dividend payouts to shareholders (EUR 12.4 million),
- - impairment losses on investments in subsidiaries (EUR 4.0 million),
- - impairment losses on financial investments (EUR 1.9 million).

The largest share of the investment portfolio as at 31 December 2018 consisted of fixed-income financial investments, i.e. 48.0% (31/12/2017: 50.9%). The proportion of these in the structure of the investment portfolio declined by 2.9 p.p. There was an increase in alternative investments in the form of infrastructure funds, which totalled EUR 1.9 million, accounting for 0.4% of the investment portfolio as at 31 December 2018. Owing to the time lag between the commitment and the actual investing, the uncalled commitment in infrastructure and real-estate funds is disclosed off the balance sheet (amounting to EUR 6.4 million as at 31 December 2018). Financial investments in subsidiaries accounted for 45.6%, up 3.5 p.p. or EUR 26.8 million. Of the strategic investments, EUR 0.7 million relates to Sava Terra, a Sava Re Group platform for investing in investment property. The Company maintained a higher level of cash compared to year-end 2017 in anticipation of rising interest rates in 2019.

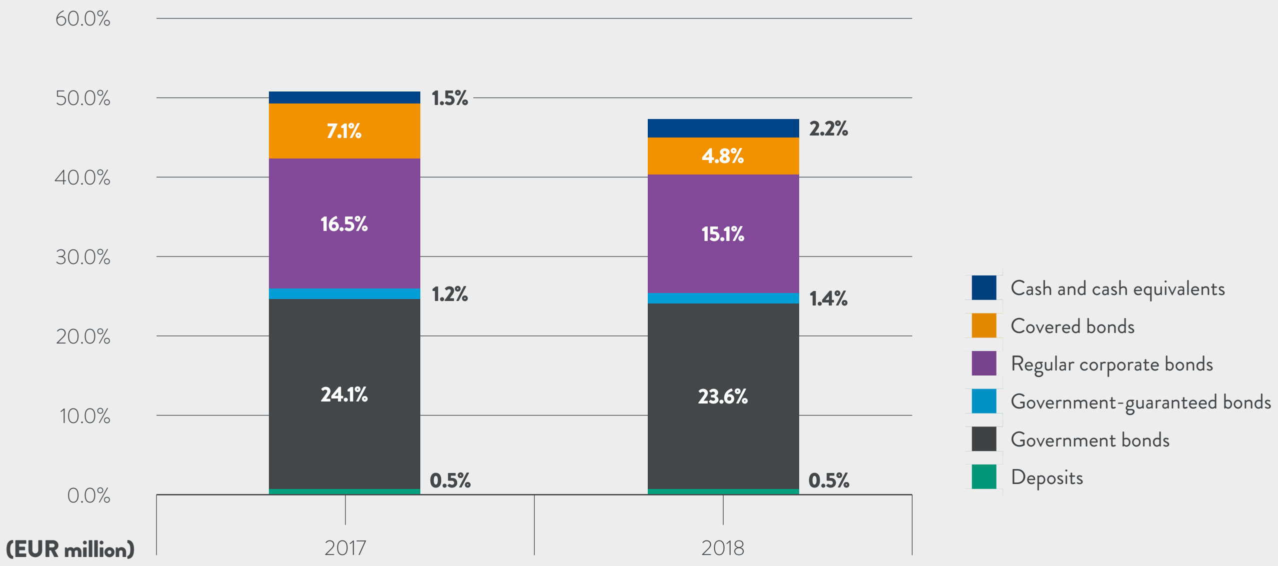
Following is an overview of the composition of the investment portfolio.

**Composition of the investment portfolio**




Following is a graph showing the composition of fixed-income investments.

**Composition of fixed-income investments as part of the investment portfolio**




The composition of fixed-income investments remained similar to the one at year-end 2017.

### 20.2.1.2 Receivables

Receivables as at year-end 2018 declined by 0.9%, or EUR 0.8 million. Receivables arising out of primary insurance business declined by EUR 2.6 million, mainly due to the decrease in gross premiums written in international markets. In the ageing analysis, the largest fall was in not-past-due receivables arising out of primary insurance business. Receivables arising out of reinsurance and co-insurance business increased by EUR 1.6 million.

## 20.2.2 Equity and liabilities

**Equity and liabilities by type**

| (EUR) | 31/12/2018 | As % of total 31/12/2018 | 31/12/2017 | As % of total 31/12/2017 |
|---|---|---|---|---|
| **LIABILITIES** | **606,331,055** | **100.0%** | **580,886,180** | **100.0%** |
| **Equity** | **319,355,361** | **52.7%** | **290,966,155** | **50.1%** |
| Share capital | 71,856,376 | 11.9% | 71,856,376 | 12.4% |
| Capital reserves | 54,239,757 | 8.9% | 54,239,757 | 9.3% |
| Profit reserves | 184,424,862 | 30.4% | 163,491,114 | 28.1% |
| Own shares | -24,938,709 | -4.1% | -24,938,709 | -4.3% |
| Fair value reserve | 2,697,381 | 0.4% | 3,804,764 | 0.7% |
| Reserve due to fair value revaluation | 40,772 | 0.0% | 13,524 | 0.0% |
| Retained earnings | 10,101,172 | 1.7% | 6,012,233 | 1.0% |
| Net profit/loss for the period | 20,933,749 | 3.5% | 16,487,096 | 2.8% |
| **Technical provisions** | **234,173,078** | **38.6%** | **232,639,163** | **40.0%** |
| **Other provisions** | **376,521** | **0.1%** | **351,250** | **0.1%** |
| **Other financial liabilities** | **87,504** | **0.0%** | **91,182** | **0.0%** |
| **Liabilities from operating activities** | **49,185,680** | **8.1%** | **54,404,921** | **9.4%** |
| **Other liabilities** | **3,152,911** | **0.5%** | **2,433,509** | **0.4%** |

#### 20.2.2.1 Equity

Equity is the largest item on the liabilities side, representing 52.7% of total equity and liabilities. Compared to 31 December 2017, equity increased by 9.8% or EUR 28.4 million due to the following movements:

- The net profit for 2018 totalled EUR 41.9 million (increase in equity).
- Sava Re paid out dividends in the amount of EUR 12.4 million (decrease in equity).
- Decline in the fair value reserve of EUR 1.1 million (charged against equity).

#### 20.2.2.2 Technical provisions

**Movements in gross technical provisions**

| (EUR) | 31/12/2018 | 31/12/2017 | Index |
|---|---|---|---|
| Gross unearned premiums | 47,147,505 | 47,602,457 | 99.0 |
| Gross provision for outstanding claims | 185,988,628 | 184,269,492 | 100.9 |
| Gross provision for bonuses, rebates and cancellations | 398,672 | 397,861 | 100.2 |
| Other gross technical provisions | 638,273 | 369,353 | 172.8 |
| **Gross technical provisions** | **234,173,078** | **232,639,163** | **100.7** |

Technical provisions, the second largest item on the liabilities side, increased by 0.7%, or EUR 1.5 million, compared to 31 December 2017. This increase stems from the growth in the gross claims provision by 0.9%, or EUR 1.7 million, which increased by EUR 3.3 million in the non-Group business portfolio because this portfolio was larger in the previous year and because of the loss events in 2018 for which claims are still pending, while in the Group portfolio there was a drop of EUR 1.6 million. The movement in technical provisions is discussed in detail in note 18 of the notes to the financial statements.

#### 20.2.2.3 Liabilities from operating activities

Liabilities from operating activities dropped by 9.6% or EUR 5.2 million. Liabilities from primary insurance business fell by EUR 7.1 million as the result of lower liabilities for claims due to normal interim movements (this relates to not-past-due liabilities) and commission payables (decline due to lower premium receivables). On the other side are premium receivables. Current tax liabilities as at year-end 2018 increased by EUR 1.8 million from year-end 2017.

### 20.2.3 Other investments of Sava Re in the insurance industry

As at 31 December 2018, Sava Re held, in addition to its investments in subsidiaries, investments in other companies in the insurance industry.

**Other investments of Sava Re in the insurance industry**

| | Holding (%) as at 31/12/2018 |
|---|---|
| **Slovenia** | |
| Skupina prva, zavarovalniški holding, d.d. | 4.04% |
| Zavarovalnica Triglav d.d. | 0.73% |
| **EU and other international** | |
| Bosna reosiguranje, d.d., Sarajevo, Bosnia and Herzegovina | 0.51% |
| Dunav Re, a.d.o., Belgrade, Serbia | 1.12% |

### 20.2.4 Capital structure

As at 31 December 2018, the Sava Re held EUR 319.4 million in equity. The Company held no subordinated liabilities as at that date. Thus the Company was solely financed through equity as at the balance sheet date.

### 20.2.5 Cash flow

In 2018, the Company had a positive cash flow from operating activities in the amount of EUR 5.6 million (2017: EUR 15.6 million). This 64% fall is a result of lower liabilities for claims (due to normal interim movements) and liabilities for commissions. In addition, cash flow was impacted by larger current income tax liabilities.

In 2018, the net disbursement in financing activities totalled EUR 12.4 million (2017: EUR 38.9 million). In 2017, the net disbursement in financing activities was affected by dividends (EUR 12.4 million) as well as the repayment of subordinated debt (EUR 24.0 million).

The movement in the net cash used in investing activities is due to investing, however, the amount was also affected by the above-mentioned factors.

## 20.3 Human resource management

### 20.3.1 Strategic guidelines for human resources management[124]

We follow modern human resources management guidelines for:

- attracting and retaining the best talent,
- developing professional and functional expertise and skills, and developing future leaders,
- providing effective leadership and motivation for employees,
- organising work in a secure, diverse, and sustainable-oriented work environment, and
- developing a modern corporate culture.

### 20.3.2 Key activities in human resource management[125]

In 2018, human resources activities centred on:

- setting up a system of management by objectives,
- developing leadership and social competences of leaders and other key employees,
- expanding activities related to health and safety at work.

### 20.3.3 Recruitment and staffing levels

Recruitment is conducted in line with the adopted recruitment plan.

The Company builds its human resources on the following principles:

- attracting high-potential and motivated staff,
- proper induction of new employees and integration,
- employee development in line with the needs of the Company and the Group, and
- creating a working environment that encourages personal and professional development of staff.

**Number of employees as at year end[126]**

A total of 22 people joined the Company in 2018. New staff was hired for internal audit, the office of the management board, controlling and the accounting department. Seven staff members departed following consensual termination and expiry of employment contracts.

The composition of the management board changed. In January, the Company's supervisory board appointed a new member to the management board.

**Number of employees as at year-end**

| | 31/12/2018 | 31/12/2017 | Change |
|---|---|---|---|
| Total | 118 | 103 | 15 |

**Number of employees by employment type (part-time, full-time) as at the year end[127]**

| | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Type of employment | Number | As % of total | Number | As % of total |
| Part-time | 11 | 9.3 | 14 | 13.6 |
| Full-time | 107 | 90.7 | 89 | 86.4 |
| Total | 118 | 100.0 | 103 | 100.0 |

As at year-end 2018, 107 persons were employed on a full-time basis (90.7%) and 11 part time (9.3%). Most employees work on a full-time employment contract. Part-time employments comprise employees who are employed by two or more Sava Re Group companies. Additionally, part-time employment is offered to employees with statutory childcare rights.

[124] GRI 103-1, 103-2, 103-3
[125] GRI 103-1, 103-2, 103-3
[126] GRI 102-7
[127] GRI 102-8
[128] GRI 102-8

### Number of the employees by type of contract as at the year end[128]

| | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Type of employment | Number | As % of total | Number | As % of total |
| Fixed-term contract | 5 | 4.2 | 3 | 2.9 |
| Contract of indefinite duration | 113 | 95.8 | 100 | 97.1 |
| Total | 118 | 100.0 | 103 | 100.0 |

As at year-end 2018, a total of 113 employees were employed under contracts of indefinite duration (95.8%). A total of 5 fixed-term contracts (4.2%) have been concluded to arrange substitutions and handle temporary increase in work load.

### Employees covered by collective bargaining agreement as at the year end[129]

| | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Employees covered by the collective bargaining system | Number | As % of total | Number | As % of total |
| Employees covered by the collective bargaining agreement | 81 | 68.6 | 67 | 65.0 |
| Employees not covered by the collective bargaining agreement | 37 | 31.4 | 36 | 35.0 |
| Total | 118 | 100.0 | 103 | 100.0 |

As at year-end 2018, a total of 81 employees were covered by the collective bargaining agreement (68.6%), while 37 employees were not covered by this agreement (31.4%). The proportion of employees covered by the collective bargaining agreement increased in professional positions.

### Employees by level of education as at the year end[130]

| | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Level of formal education | Number | As % of total | Number | As % of total |
| Primary and lower secondary education | 0 | 0.0 | 0 | 0.0 |
| Secondary education | 14 | 11.9 | 13 | 12.6 |
| Higher education | 5 | 4.2 | 4 | 3.9 |
| University education | 78 | 66.1 | 65 | 63.1 |
| Master's degree and doctorate | 21 | 17.8 | 21 | 20.4 |
| Total | 118 | 100.0 | 103 | 100.0 |

A total of 99 staff members, or 83.9%, have more than higher education. Of these, 18 have master's degrees and three have doctorates. The Company's business requires highly-educated personnel. The Company encourages employees to join formal education programmes.

[129] GRI 102-41
[130] GRI 102-8

### Employees by age group as at the year end[131]

| | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Age group | Number | As % of total | Number | As % of total |
| From 20 to 25 | 2 | 1.7 | 1 | 1.0 |
| From 26 to 30 | 14 | 11.9 | 12 | 11.7 |
| From 31 to 35 | 8 | 6.8 | 10 | 9.7 |
| From 36 to 40 | 22 | 18.6 | 21 | 20.4 |
| From 41 to 45 | 25 | 21.2 | 25 | 24.3 |
| From 46 to 50 | 25 | 21.2 | 17 | 16.5 |
| From 51 to 55 | 14 | 11.9 | 10 | 9.7 |
| over 56 | 8 | 6.8 | 7 | 6.8 |
| Total | 118 | 100.0 | 103 | 100.0 |

The Company's average employee age increased slightly compared to the previous year and was 43.1 years (2017: 42.1 years). The average age of the members of the management board is 50.7. We hired staff with extensive experience in the year, which is why there was a pronounced increase in the 46-to-50 years age group.

### Employees by gender as at the year end[132]

| | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Gender | Number | As % of total | Number | As % of total |
| Women | 72 | 61.0 | 59 | 57.3 |
| Men | 46 | 39.0 | 44 | 42.7 |
| Total | 118 | 100.0 | 103 | 100.0 |

Women are represented at all levels of management and in all professional areas. Following the new recruitments in 2018, the proportion of men decreased by 3.7 p.p. compared to the previous year. The four-member management board is composed of one woman and three men.

The basic salary of women is the same as the basic salary of men in all employee categories[133].

[131] GRI 102-8
[132] GRI 102-8, 405-1
[133] GRI 405-2

### Employees by years of service with the Company as at the year end

| | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Years of service | Number | As % of total | Number | As % of total |
| From 0 to 5 years | 56 | 47.5 | 41 | 39.8 |
| From 5 to 10 years | 27 | 22.9 | 32 | 31.1 |
| From 10 to 15 years | 17 | 14.4 | 14 | 13.6 |
| From 15 to 20 years | 9 | 7.6 | 8 | 7.8 |
| From 20 to 30 years | 7 | 5.9 | 6 | 5.8 |
| Over 30 years | 2 | 1.7 | 2 | 1.9 |
| Total | 118 | 100.0 | 103 | 100.0 |

The large proportion of employees in the first two categories, based on seniority in the Company, is attributed to increased recruitment since 2009.

### Absenteeism rate[134]

| | 2018 | 2017 | Change |
|---|---|---|---|
| Number of working days lost | 619 | 679 | -60.0 |
| Average number of employees | 114 | 100 | 13.4 |
| Number of working days per year | 248 | 249 | -1.0 |
| Absenteeism rate (%) | 2.2% | 2.7% | -0.5 |

Absenteeism is calculated as the number of lost workdays due to absences divided by the product of the average number of employees multiplied by the average number of workdays during the period multiplied by 100. The absenteeism rate has been declining since 2016. In 2018, it dropped by 0.523 p.p. to 2.19% compared to the previous year. We believe that the lower absenteeism rate in 2018 reflects the Company's efforts to develop a pleasant work environment and friendly relationships. As a socially responsible company, we launched some new health promotion activities in 2018.

### Number of work-related injuries and resulting working days lost[135]

| | 2018 | 2017 | Index |
|---|---|---|---|
| Injuries | Number | Number | |
| Number of injuries | 1 | 0 | - |
| Number of working days lost | 5 | 0 | - |
| Number of working hours lost | 40 | 0 | - |

In 2018, one staff member suffered a work-related injury and lost five working days.

[134] GRI 403-2
[135] GRI 403-2

## Employee turnover rate[136]

### Employee turnover rate

| | 2018 | 2017 | Change |
|---|---|---|---|
| Number of employees who left | 7 | 8 | -1.0 |
| Number of employees as at the year end | 118 | 103 | 15.0 |
| Employee turnover rate (%) | 5.93% | 7.77% | -1.84 |

The employee turnover rate is measured by the ratio of the number of employees who left to the total number of employees as at the year end. The Company's employee turnover rate has been declining since 2016. Compared to the previous year it decreased by 1.8 p.p. to 5.9%. Employee turnover is largest with employees who have been with the Company for less than five years.

### Overview of employee arrivals and departures by gender in current year

| Year 2018 | Arrivals | | Departures | |
|---|---|---|---|---|
| Gender | Number | Composition (%) | Number | Composition (%) |
| Women | 15 | 68.2 | 2 | 28.6 |
| Men | 7 | 31.8 | 5 | 71.4 |
| Total | 22 | 100.0 | 7 | 100.0 |

In 2018, we recruited 22 people, of which 15 were women and 7 were men, while among the 7 who left the Company, 2 were women and 5 were men.

### Overview of employee arrivals and departures by age in current year

| Year 2018 | Arrivals | | Departures | |
|---|---|---|---|---|
| Age group | Number | Composition (%) | Number | Composition (%) |
| From 20 to 25 | 1 | 4.5 | 0 | 0.0 |
| From 26 to 30 | 3 | 13.6 | 0 | 0.0 |
| From 31 to 35 | 1 | 4.5 | 2 | 28.6 |
| From 36 to 40 | 3 | 13.6 | 0 | 0.0 |
| From 41 to 45 | 7 | 31.8 | 2 | 28.6 |
| From 46 to 50 | 2 | 9.1 | 1 | 14.3 |
| From 51 to 55 | 5 | 22.7 | 2 | 28.6 |
| over 56 | 0 | 0.0 | 0 | 0.0 |
| Total | 22 | 100.0 | 7 | 100.0 |

Most of the staff members recruited in the year are of the 41-to-45 age group (7 employees) and of the 51-to-55 age group (5 employees). On the whole, we are employers who employ workers from all age groups. Employee departures were recorded particularly in four different age groups.

[136] GRI 401-1

## 20.3.4 Employee training and development[137]

The Company encourages the development of competence and responsibility in its employees. Therefore, employees join education and training programmes in accordance with the needs of the workplace as well as their personal and career development.

We recruit young, high-potential as well as experienced people. In order to prepare new employees for their new role quickly and efficiently, the Company prepares suitable induction programmes upon employment. During these periods, new employees are placed in the care of a mentor and a leader to prepare them for tasks that are more demanding and carry more responsibility.

Based on an analysis of leadership competencies of key personnel carried out in 2018, we organised development activities for leaders and other key personnel. We fostered the development of leadership and social competencies through an all-year peer-to-peer coaching programme.

We offer our employees interesting work in culturally diverse international environments. We are creating a working environment that supports the professional and personal development of our employees. We encourage knowledge sharing among Sava Re Group employees. In order to unlock synergies and strengthen relations, we offered seminars in internal auditing, IT, finance, accounting, controlling, actuarial affairs, human resource management, risk assumption and risk transfer, and two marketing and sales conferences.

As in previous years, we organised two international strategic conferences, getting together employees from the entire Sava Re Group to exchange experiences, analyse current challenges, share best practices and prepare improvements that contribute to more efficient operations. This year's topic was state-of-the-art leadership, designing pension policies, new international accounting standards and digital marketing.

**Key data on employee training[138]**

| | 2018 | 2017 | Index |
|---|---|---|---|
| **Hours of training/education** | 1,864 | 1,948 | 95.7 |
| **Number of training attendees** | 72 | 77 | 93.5 |
| **Hours of training per attendee** | 25.9 | 25.3 | 102.3 |

Employees participate in domestic as well as foreign business and professional conferences and training events. In 2018 we carried out various training events for leaders through foreign language courses, especially English, French and Spanish, computer programs and for other skills.

[137] GRI 103-1, 103-2, 103-3
[138] GRI 404-1

We are a company with a broad range of expertise; therefore, we encourage employees to share their knowledge and skills. This is because highly-skilled employees are the pillars of development in all areas of our business.

Training events were attended by 72 out of the total of 118 employees, which is 61%. In total, this amounted to 1,864 training hours. The number of hours per participant rose by 2.3% compared to 2017.

**Average hours of employee training[139]**

| | | | 2018 |
|---|---|---|---|
| **Gender** | **Number** | **Hours of training** | **Average** |
| **Women** | 45 | 1,140 | 25.3 |
| **Men** | 27 | 724 | 26.8 |
| **Total** | **72** | **1,864** | **25.9** |

The number of training hours per employee increased in 2018 compared to the previous year, but there has also been an increase in the number of employees. The number of training hours for women is considerably larger than for men partly reflecting the larger number of women employed by the Company.

## 20.3.5 Leadership and motivation of employees[140]

We encourage a positive working climate by effective leadership and motivation of employees, effective organisation of work and the involvement of employees in a number of projects. We appreciate the commitment of staff members in working towards the Company's goals. The remuneration system is geared towards motivating employees to improve on their past performance. We encourage them to seek new way of performing tasks that are more efficient and produce better results.

### 20.3.5.1 Annual performance appraisal interviews[141]

In 2018, we complemented annual performance appraisal interviews with a leading by objectives system.

The leading by objectives project is aimed at building a system of setting and monitoring objectives that are derived from the Company's strategy. The system should serve leaders as a tool to direct staff members towards strategic goals, while offering employees the opportunity to contribute through individual objectives, taking on the related responsibilities.

[139] GRI 404-1
[140] GRI 103-1, 103-2, 103-3
[141] GRI 404-3

Thereby the Company seeks to bring the strategy closer to its employees, providing feedback on how their work contributes towards attaining the Company's goals. This will sharpen their focus on objectives so that they can better identify with their role in and responsibilities for delivering on the strategy.

In regular annual interviews, leaders and employees review past objectives and set new ones breaking them down into tasks to be performed in the coming period. They also discuss past and future education, training and other plans.

Annual performance appraisal interviews were conducted with all employees.

### 20.3.5.2 Health and safety at work[142]

Activities of health and safety at work involve all employees, management, human resources, an approved medical examiner and another external authorised service provider. In 2018, we carried out all health, safety at work, and fire protection measures.

We complemented the current health at work system by offering workshops on a healthy lifestyle and organising a variety of events promoting employee recreation. We did some rowing, hiking and tried to win a badminton tournament. We use various activities to raise employee awareness of health and well-being. In addition, we support the health of our staff through weekly supply of seasonal fruit.

Employees are regularly referred to periodic health checks at occupational medicine clinics and undergo regular training in health and safety at work in accordance with applicable laws and internal acts.

The Company's holiday facilities in Bohinj and Cres are available for employees to use.

### 20.3.5.3 Other[143]

The union and workers' council act as a link between employees and the Company's management. Their members represent all organisational units. In 2018, they contributed to amending a number of the Company's internal acts.

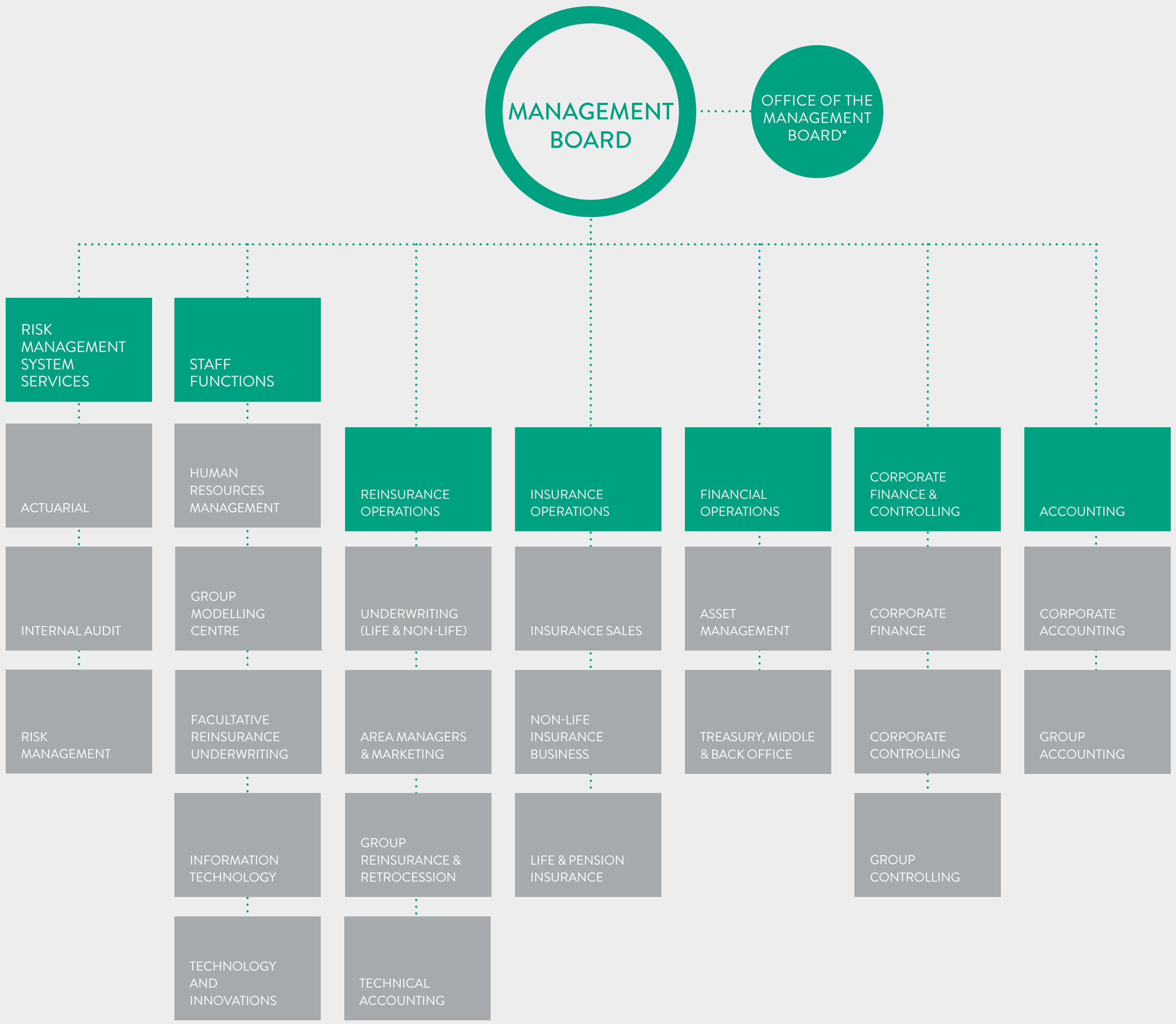
All-staff meetings are an important source of information for employees, where the management board presents results of operations, plans for the current period and the development strategy of the Company and the Group.

Internal communication is through various internal media and tools. Monthly events are posted on the Savan intranet portal.

Cooperation and networking is strengthened in meetings, training events and social events. This year again, employees took part in a number of volunteer activities in support of the Sava Re Day, which has been organised in cooperation with the Slovenian Philanthropy for several years.

[142] GRI 103-1, 103-2, 103-3
[143] GRI 103-1, 103-2, 103-3

**Organisational chart of Sava Re as at 31 December 2018[144]**




* Office of the Management Board includes Compliance Monitoring.

[144] GRI 102-18

## 20.4 Sava Re risk management[145]

The organisation, process of risk management as well as the risk management policy of Sava Re are described in the business report of the Sava Re Group, section 11 “Risk management”.

## 20.5 Internal audit

The organisation of internal auditing in 2018 is described in the business report of the Sava Re Group, section 12 “Operation of the internal audit”.

## 20.6 Business processes and IT support

In the development of business applications, efforts were put into the upgrading of IT processes for change management in software development and verification of the conformity of business solutions for asset management in accordance with the planned needs of the business.

A key substantive change is the beginning of works on setting up an integral Sava Re data warehouse with special focus on data management and ensuring their quality. This task is part of the IFRS 17 implementation project and will continue in 2019.

Following the identification of IT security as a key development area, we searched the market for service providers of security operational centres and started setting up a hybrid (internal and external) security operations centre.

In business continuity, we successfully carried out the tasks we set for ourselves.

Regarding information technology, we complemented the set of internal controls and risks, enhanced the controlling of IT expenses and investments, and started an IT self-assessment process related to the maturity of IT processes and security.

[145] GRI 102-11

## 20.7 Sava Re performance indicators[146]

**Development of gross premiums written**

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| | 1 | 2 | 1/2 |
| Personal accident | 5,129,020 | 5,391,534 | 95.1 |
| Health | 140,611 | 3,244,210 | 4.3 |
| Land vehicles casco | 18,630,923 | 17,966,660 | 103.7 |
| Railway rolling stock | 122,506 | 211,981 | 57.8 |
| Aircraft hull | 786,247 | 12,326 | 6,379.0 |
| Ships hull | 5,666,010 | 5,542,664 | 102.2 |
| Goods in transit | 5,296,882 | 5,234,561 | 101.2 |
| Fire insurance | 69,954,809 | 70,920,629 | 98.6 |
| Other damage to property | 19,963,622 | 18,222,571 | 109.6 |
| Motor liability | 14,868,527 | 14,484,378 | 102.7 |
| Aircraft liability | 148,068 | 139,060 | 106.5 |
| Liability for ships | 747,076 | 723,250 | 103.3 |
| General liability | 7,859,330 | 7,554,812 | 104.0 |
| Credit | 925,198 | 980,196 | 94.4 |
| Suretyship | 36,241 | 242,199 | 15.0 |
| Miscellaneous financial loss | 645,442 | 1,509,279 | 42.8 |
| Legal expenses | -71 | 10,118 | -0.7 |
| Assistance | 17,888 | 19,355 | 92.4 |
| Life | 513,723 | 489,010 | 105.1 |
| Unit-linked life | 184,166 | 320,960 | 57.4 |
| **Total non-life** | **150,938,327** | **152,409,782** | **99.0** |
| **Total life** | **697,889** | **809,970** | **86.2** |
| **Total** | **151,636,216** | **153,219,752** | **99.0** |

[146] Performance indicators are given pursuant to the Decision on the annual report and quarterly financial statements of insurance companies (Official Gazette of the Republic of Slovenia, nos. 1/2016 and 85/2016).

Net premiums written as a percentage of gross premiums written

| (EUR, except percentages) | Gross premiums written | Net premiums written | 2018 | 2017 |
|---|---|---|---|---|
| | 1 | 2 | 2/1 | |
| Personal accident | 5,129,020 | 5,088,013 | 99.2% | 99.3% |
| Health | 140,611 | 140,611 | 100.0% | 100.0% |
| Land vehicles casco | 18,630,923 | 17,885,109 | 96.0% | 93.3% |
| Railway rolling stock | 122,506 | 120,262 | 98.2% | 98.0% |
| Aircraft hull | 786,247 | 780,653 | 99.3% | 36.0% |
| Ships hull | 5,666,010 | 5,278,435 | 93.2% | 93.7% |
| Goods in transit | 5,296,882 | 5,063,065 | 95.6% | 95.0% |
| Fire insurance | 69,954,809 | 58,329,486 | 83.4% | 84.4% |
| Other damage to property | 19,963,622 | 16,658,978 | 83.4% | 79.9% |
| Motor liability | 14,868,527 | 14,382,180 | 96.7% | 96.3% |
| Aircraft liability | 148,068 | 101,286 | 68.4% | 64.6% |
| Liability for ships | 747,076 | 731,230 | 97.9% | 98.6% |
| General liability | 7,859,330 | 7,273,209 | 92.5% | 88.6% |
| Credit | 925,198 | 925,198 | 100.0% | 100.0% |
| Suretyship | 36,241 | 36,241 | 100.0% | 100.0% |
| Miscellaneous financial loss | 645,442 | 73,935 | 11.5% | 65.3% |
| Legal expenses | -71 | -71 | 100.0% | 100.0% |
| Assistance | 17,888 | 17,888 | 100.0% | 100.0% |
| Life | 513,723 | 252,160 | 49.1% | 50.1% |
| Unit-linked life | 184,166 | 90,556 | 49.2% | 63.6% |
| **Total non-life** | **150,938,327** | **132,885,707** | **88.0%** | **87.8%** |
| **Total life** | **697,889** | **342,716** | **49.1%** | **55.5%** |
| **Total** | **151,636,216** | **133,228,423** | **87.9%** | **87.7%** |

Development of gross claims paid

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| | 1 | 2 | 1/2 |
| Personal accident | 3,569,281 | 3,061,325 | 116.6 |
| Health | 223,414 | 2,763,819 | 8.1 |
| Land vehicles casco | 12,242,094 | 11,373,214 | 107.6 |
| Railway rolling stock | 559,088 | 91,017 | 614.3 |
| Aircraft hull | 1,080,337 | 36,632 | 2,949.2 |
| Ships hull | 3,392,217 | 4,884,260 | 69.5 |
| Goods in transit | 5,539,259 | 3,327,197 | 166.5 |
| Fire insurance | 35,260,750 | 36,760,277 | 95.9 |
| Other damage to property | 9,748,817 | 7,433,803 | 131.1 |
| Motor liability | 8,269,792 | 9,948,883 | 83.1 |
| Aircraft liability | -5,394 | 35,450 | -15.2 |
| Liability for ships | 341,169 | 374,664 | 91.1 |
| General liability | 2,202,777 | 1,873,500 | 117.6 |
| Credit | -228,425 | -184,069 | 124.1 |
| Suretyship | 59,299 | 175,757 | 33.7 |
| Miscellaneous financial loss | 226,844 | 1,297,317 | 17.5 |
| Legal expenses | 447 | 1,165 | 38.4 |
| Assistance | 306 | 9,258 | 3.3 |
| Life | 126,290 | 129,004 | 97.9 |
| Unit-linked life | 79,314 | 132,977 | 59.6 |
| **Total non-life** | **82,482,074** | **83,263,468** | **99.1** |
| **Total life** | **205,604** | **261,981** | **78.5** |
| **Total** | **82,687,678** | **83,525,449** | **99.0** |

Loss ratios

| (EUR, except percentages) | Gross premiums written | Gross claims paid | 2018 | 2017 |
|---|---|---|---|---|
| | 1 | 2 | 2/1 | |
| Personal accident | 5,129,020 | 3,569,281 | 69.6% | 56.8% |
| Health | 140,611 | 223,414 | 158.9% | 85.2% |
| Land vehicles casco | 18,630,923 | 12,242,094 | 65.7% | 63.3% |
| Railway rolling stock | 122,506 | 559,088 | 456.4% | 42.9% |
| Aircraft hull | 786,247 | 1,080,337 | 137.4% | 297.2% |
| Ships hull | 5,666,010 | 3,392,217 | 59.9% | 88.1% |
| Goods in transit | 5,296,882 | 5,539,259 | 104.6% | 63.6% |
| Fire insurance | 69,954,809 | 35,260,750 | 50.4% | 51.8% |
| Other damage to property | 19,963,622 | 9,748,817 | 48.8% | 40.8% |
| Motor liability | 14,868,527 | 8,269,792 | 55.6% | 68.7% |
| Aircraft liability | 148,068 | -5,394 | -3.6% | 25.5% |
| Liability for ships | 747,076 | 341,169 | 45.7% | 51.8% |
| General liability | 7,859,330 | 2,202,777 | 28.0% | 24.8% |
| Credit | 925,198 | -228,425 | -24.7% | -18.8% |
| Suretyship | 36,241 | 59,299 | 163.6% | 72.6% |
| Miscellaneous financial loss | 645,442 | 226,844 | 35.1% | 86.0% |
| Legal expenses | -71 | 447 | -631.7% | 11.5% |
| Assistance | 17,888 | 306 | 1.7% | 47.8% |
| Life | 513,723 | 126,290 | 24.6% | 26.4% |
| Unit-linked life | 184,166 | 79,314 | 43.1% | 41.4% |
| **Total non-life** | **150,938,327** | **82,482,074** | **54.6%** | **54.6%** |
| **Total life** | **697,889** | **205,604** | **29.5%** | **32.3%** |
| **Total** | **151,636,216** | **82,687,678** | **54.5%** | **54.5%** |

Administrative expenses as percentage of gross premiums written

| (EUR, except percentages) | Gross premiums written | Operating expenses* | 2018 | 2017 |
|---|---|---|---|---|
| | 1 | 2 | 2/1 | |
| Personal accident | 5,129,020 | 1,573,385 | 30.7% | 29.6% |
| Health | 140,611 | 106,079 | 75.4% | 34.7% |
| Land vehicles casco | 18,630,923 | 4,886,427 | 26.2% | 22.3% |
| Railway rolling stock | 122,506 | 139,900 | 114.2% | 14.3% |
| Aircraft hull | 786,247 | 131,200 | 16.7% | 508.0% |
| Ships hull | 5,666,010 | 1,262,074 | 22.3% | 23.1% |
| Goods in transit | 5,296,882 | 1,104,775 | 20.9% | 23.7% |
| Fire insurance | 69,954,809 | 19,716,010 | 28.2% | 25.0% |
| Other damage to property | 19,963,622 | 5,151,519 | 25.8% | 25.0% |
| Motor liability | 14,868,527 | 3,700,935 | 24.9% | 25.3% |
| Aircraft liability | 148,068 | 31,790 | 21.5% | 16.9% |
| Liability for ships | 747,076 | 175,220 | 23.5% | 22.8% |
| General liability | 7,859,330 | 2,216,571 | 28.2% | 25.9% |
| Credit | 925,198 | 350,245 | 37.9% | 26.1% |
| Suretyship | 36,241 | -33,891 | -93.5% | 31.7% |
| Miscellaneous financial loss | 645,442 | 444,198 | 68.8% | 26.8% |
| Legal expenses | -71 | 2,030 | -2868.4% | 40.4% |
| Assistance | 17,888 | 3,802 | 21.3% | 18.4% |
| Life | 513,723 | 141,920 | 27.6% | 23.4% |
| Unit-linked life | 184,166 | 38,348 | 20.8% | 21.8% |
| **Total non-life** | **150,938,327** | **40,962,268** | **27.1%** | **25.1%** |
| **Total life** | **697,889** | **180,269** | **25.8%** | **22.7%** |
| **Total** | **151,636,216** | **41,142,537** | **27.1%** | **25.0%** |

* Included are only the operating expenses relating to reinsurance operations (excluding administrative expenses relating to the Group).

### Acquisition costs (commission) as percentage of gross premiums written

| (EUR, except percentages) | Gross premiums written | Acquisition costs | 2018 | 2017 |
|---|---|---|---|---|
| | 1 | 2 | 2/1 | |
| Personal accident | 5,129,020 | 1,380,614 | 26.9% | 23.5% |
| Health | 140,611 | 36,679 | 26.1% | 32.9% |
| Land vehicles casco | 18,630,923 | 4,301,974 | 23.1% | 20.8% |
| Railway rolling stock | 122,506 | 25,167 | 20.5% | 13.4% |
| Aircraft hull | 786,247 | 99,061 | 12.6% | 8.6% |
| Ships hull | 5,666,010 | 1,055,588 | 18.6% | 23.5% |
| Goods in transit | 5,296,882 | 825,014 | 15.6% | 20.3% |
| Fire insurance | 69,954,809 | 16,409,621 | 23.5% | 21.6% |
| Other damage to property | 19,963,622 | 4,367,033 | 21.9% | 19.8% |
| Motor liability | 14,868,527 | 3,465,539 | 23.3% | 21.9% |
| Aircraft liability | 148,068 | 27,513 | 18.6% | 13.3% |
| Liability for ships | 747,076 | 131,685 | 17.6% | 21.6% |
| General liability | 7,859,330 | 1,978,881 | 25.2% | 22.1% |
| Credit | 925,198 | 289,709 | 31.3% | 24.3% |
| Suretyship | 36,241 | -34,405 | -94.9% | 26.7% |
| Miscellaneous financial loss | 645,442 | 331,579 | 51.4% | 20.8% |
| Legal expenses | -71 | 1,174 | -1659.2% | 36.6% |
| Assistance | 17,888 | 1,769 | 9.9% | 9.2% |
| Life | 513,723 | 122,987 | 23.9% | 19.4% |
| Unit-linked life | 184,166 | 30,869 | 16.8% | 19.4% |
| **Total non-life** | **150,938,327** | **34,694,207** | **23.0%** | **21.7%** |
| **Total life** | **697,889** | **153,856** | **22.0%** | **19.4%** |
| **Total** | **151,636,216** | **34,848,052** | **23.0%** | **21.7%** |

### Net paid loss ratio

| (EUR, except percentages) | Net premiums earned | Net claims incurred | 2018 | 2017 |
|---|---|---|---|---|
| | 1 | 2 | 2/1 | |
| Personal accident | 5,020,019 | 2,011,630 | 40.1% | 43.0% |
| Health | 145,556 | -107,564 | -73.9% | 77.3% |
| Land vehicles casco | 18,042,977 | 12,242,884 | 67.9% | 70.2% |
| Railway rolling stock | 133,430 | 587,259 | 440.1% | 53.7% |
| Aircraft hull | 717,912 | 389,846 | 54.3% | 228.7% |
| Ships hull | 5,048,639 | 6,893,226 | 136.5% | 116.1% |
| Goods in transit | 5,017,426 | 5,032,859 | 100.3% | 61.3% |
| Fire insurance | 59,438,026 | 31,548,970 | 53.1% | 67.9% |
| Other damage to property | 16,931,240 | 8,819,464 | 52.1% | 38.1% |
| Motor liability | 13,739,254 | 5,994,892 | 43.6% | 40.6% |
| Aircraft liability | 94,774 | -28,940 | -30.5% | -26.1% |
| Liability for ships | 716,638 | 377,093 | 52.6% | 42.9% |
| General liability | 6,982,393 | 3,012,608 | 43.1% | 26.2% |
| Credit | 936,293 | -73,069 | -7.8% | -25.4% |
| Suretyship | 8,989 | -88,016 | -979.1% | 105.1% |
| Miscellaneous financial loss | 413,947 | 59,339 | 14.3% | 94.2% |
| Legal expenses | 1,835 | -1,396 | -76.1% | 8.3% |
| Assistance | 17,888 | -131 | -0.7% | 47.7% |
| Life | 133,213 | -107,649 | -80.8% | -6.6% |
| Unit-linked life | 199,729 | 41,325 | 20.7% | 39.9% |
| **Total non-life** | **133,407,236** | **76,670,957** | **57.5%** | **60.2%** |
| **Total life** | **332,942** | **-66,324** | **-19.9%** | **3.8%** |
| **Total** | **133,740,178** | **76,604,633** | **57.3%** | **60.0%** |

### Combined loss ratio for non-life insurance business (EUR, except percentages)

| Net claims incurred | Administrative expenses | Net premiums earned | 2018 | 2017 |
|---|---|---|---|---|
| 1 | 2 | 3 | (1+2)/3 | |
| 76,670,957 | 12,758,699 | 133,407,236 | 67.0% | 68.5% |

### Net investment income as percentage of average investments

| (EUR, except percentages) | Average investments | Investment income | Investment expenses | Investment return 1-12/2018 | Effect of investments 1-12/2017 |
|---|---|---|---|---|---|
| Non-life insurance register | 229,381,381 | 11,056,320 | 8,657,633 | 1.0% | -0.3% |
| Capital fund | 233,227,816 | 34,148,043 | 4,114,845 | 12.9% | 11.6% |
| **Total** | **462,609,197** | **45,204,363** | **12,772,479** | **7.0%** | **5.6%** |

### Net provisions for outstanding claims as percentage of net earned premiums

| (EUR, except percentages) | Net provision for outstanding claims | Net premiums earned | 2018 | 2017 |
|---|---|---|---|---|
| | 1 | 2 | 1/2 | |
| Personal accident | 6,262,613 | 5,020,019 | 124.8% | 140.4% |
| Health | 13,619 | 145,556 | 9.4% | 10.6% |
| Land vehicles casco | 6,308,373 | 18,042,977 | 35.0% | 40.8% |
| Railway rolling stock | 40,418 | 133,430 | 30.3% | 6.4% |
| Aircraft hull | 685,283 | 717,912 | 95.5% | 1144.2% |
| Ships hull | 12,248,768 | 5,048,639 | 242.6% | 183.2% |
| Goods in transit | 5,045,993 | 5,017,426 | 100.6% | 119.5% |
| Fire insurance | 76,658,293 | 59,438,026 | 129.0% | 126.9% |
| Other damage to property | 15,484,901 | 16,931,240 | 91.5% | 103.8% |
| Motor liability | 28,817,200 | 13,739,254 | 209.7% | 234.9% |
| Aircraft liability | 33,663 | 94,774 | 35.5% | 78.7% |
| Liability for ships | 564,908 | 716,638 | 78.8% | 76.1% |
| General liability | 14,775,215 | 6,982,393 | 211.6% | 212.4% |
| Credit | 531,601 | 936,293 | 56.8% | 47.4% |
| Suretyship | 350,509 | 8,989 | 3899.3% | 189.4% |
| Miscellaneous financial loss | 186,632 | 413,947 | 45.1% | 33.9% |
| Legal expenses | 387 | 1,835 | 21.1% | 21.3% |
| Assistance | 105 | 17,888 | 0.6% | 2.8% |
| Life | 67,525 | 133,213 | 50.7% | 66.4% |
| Unit-linked life | 45,892 | 199,729 | 23.0% | 38.3% |
| **Total non-life** | **168,008,480** | **133,407,236** | **125.9%** | **128.4%** |
| **Total life** | **113,417** | **332,942** | **34.1%** | **60.1%** |
| **Total** | **168,121,897** | **133,740,178** | **125.7%** | **128.2%** |

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### Gross profit or loss for the period as percentage of net premiums written (EUR, except percentages)

| Gross profit/loss | Net premiums written | 2018 | 2017 |
|---|---|---|---|
| 1 | 2 | 1/2 | |
| 45,021,864 | 133,228,423 | 33.8% | 25.9% |

### Gross profit or loss for the period as percentage of average equity (EUR, except percentages)

| Gross profit/loss | Average equity | 2018 | 2017 |
|---|---|---|---|
| 1 | 2 | 1/2 | |
| 45,021,864 | 305,160,758 | 14.8% | 12.4% |

### Gross profit or loss for the period as percentage of average assets (EUR, except percentages)

| Gross profit/loss | Average assets | 2018 | 2017 |
|---|---|---|---|
| 1 | 2 | 1/2 | |
| 45,021,864 | 593,608,618 | 7.6% | 6.1% |

### Gross profit or loss for the period per share (EUR, except percentages)

| Gross profit/loss | No. of shares | 2018 | 2017 |
|---|---|---|---|
| 1 | 2 | 1/2 | |
| 45,021,864 | 17,219,662 | 2.61 | 2.02 |

### Receivables arising out of reinsurance business and reinsurers' share of technical provisions as a percentage of equity (EUR, except percentages)

| Receivables arising out of reinsurance business | Reinsurers' share of technical provisions | Equity | 2018 | 2017 |
|---|---|---|---|---|
| 1 | 2 | 3 | (1+2)/3 | |
| 4,842,279 | 21,437,221 | 319,355,361 | 8.2% | 8.0% |

### Net premiums written as percentage of average equity and average technical provisions (EUR, except percentages)

| Net premiums written | Average equity | Average technical provisions | 2018 | 2017 |
|---|---|---|---|---|
| 1 | 2 | 3 | 1/(2+3) | |
| 133,228,423 | 305,160,758 | 233,406,121 | 24.7% | 26.3% |

### Average technical provisions as percentage of net earned premiums (EUR, except percentages)

| Average net technical provisions | Net premiums earned | 2018 | 2017 |
|---|---|---|---|
| 1 | 2 | 1/2 | |
| 212,650,725 | 133,740,178 | 159.0% | 160.7% |

### Equity as percentage of liabilities and equity (EUR, except percentages)

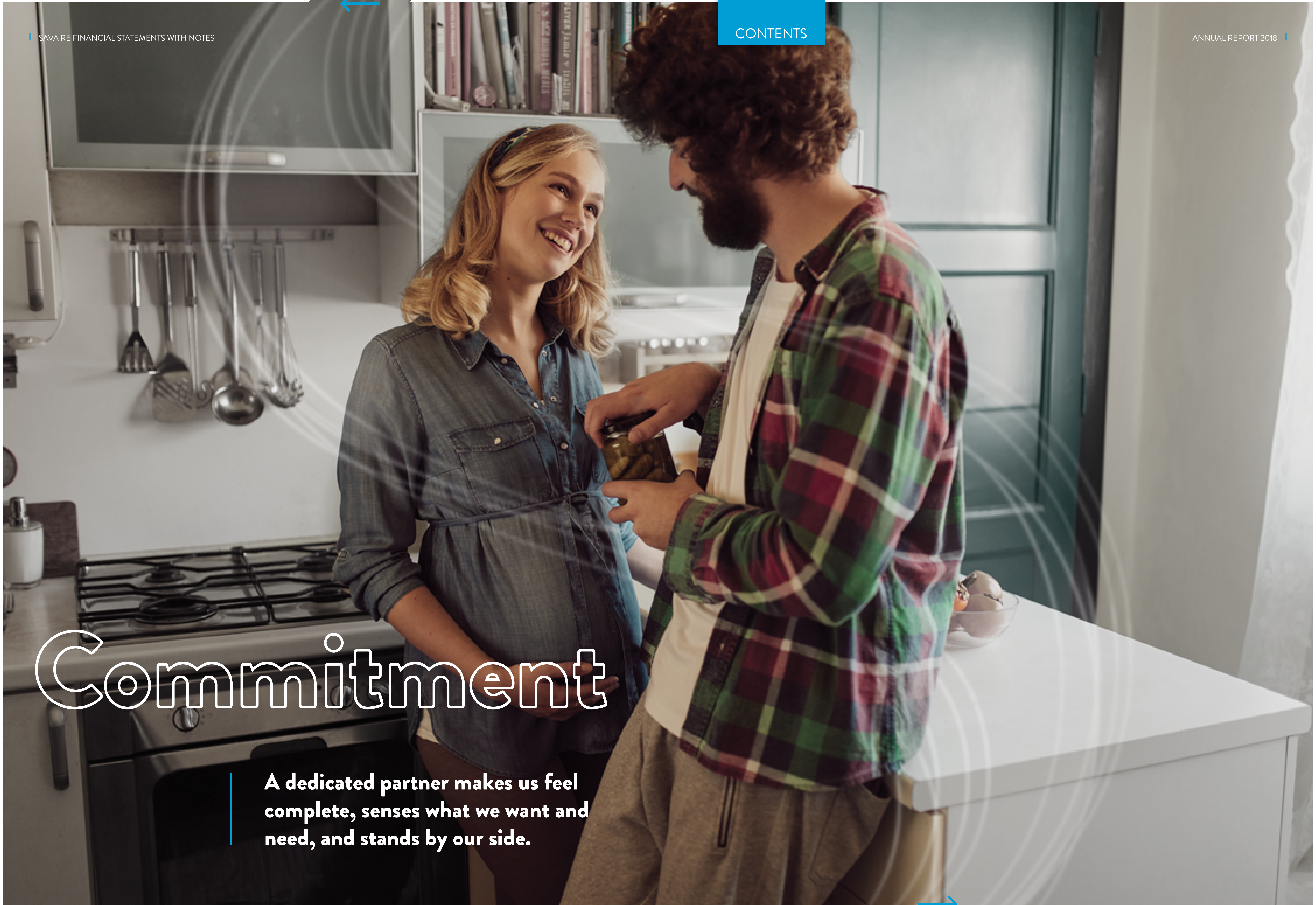
| Equity | Liabilities and equity | 2018 | 2017 |
|---|---|---|---|
| 1 | 2 | 1/2 | |
| 319,355,361 | 606,331,055 | 52.7% | 50.1% |

### Net technical provisions as percentage of liabilities and equity (EUR, except percentages)

| Net technical provisions | Liabilities and equity | 2018 | 2017 |
|---|---|---|---|
| 1 | 2 | 1/2 | |
| 212,735,857 | 606,331,055 | 35.1% | 36.6% |

### Gross premiums written per employee (EUR, except percentages)

| Gross premiums written | Number of employees in regular employment | 2018 | 2017 |
|---|---|---|---|
| 1 | 2 | 1/2 | |
| 151,636,216 | 110.125 | 1,376,946 | 1,587,769 |



# Commitment

**A dedicated partner makes us feel complete, senses what we want and need, and stands by our side.**

# 21 Auditor's report

**This is a translation of the original report in Slovene language**

**INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of Pozavarovalnica Sava, d.d.**

**Opinion**

We have audited the financial statements of Pozavarovalnica Sava, d.d. ("the Company"), which comprise the statement of financial position as at 31 December 2018, the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pozavarovalnica Sava, d.d. as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Estimations concerning premium recognition, technical provisions, reinsurance assets and liabilities

The technical provisions of the Company consist solely of provisions related to reinsurance business. Part of those provisions are related to estimates based on input data received from cedants, underwriters' assumptions and historical data developed internally by the Company. The Company estimates technical provisions for business outside and inside Sava Re Group, taking into account estimated premium income (EPI) and estimated combined ratios (CR).

Those estimates also influence other significant areas within the financial statements, such as gross premium income and its related reinsurance receivables, commission and its related reinsurance liabilities and technical provisions. Premium estimates are made based on estimated premium income (EPI) for reinsurance contracts which, according to due dates, are already in force, although the Company has yet to receive reinsurance accounts on December 31.

The Company prepares back testing analyses to assess the correctness of previous period assumption and builds projections on experience. Estimates are made depending on differences between annually estimated CR and actual CR on a contract level. Additionally, incurred but not reported claims (IBNR) are calculated independently by the Company to confirm reasonability of ceded amounts, using development triangles of cumulative claim payments by underwriting year.

Due to the significant level of assumptions involved in the estimations made by the underwriters and the actuary we consider this matter to be significant for our audit and a key audit matter.
We involved actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in setting of assumptions.

We assessed the design and verified the operating effectiveness of internal controls over the estimation process including the initial input of the data in the model based on reinsurance contracts as well as the later update of assumptions based on current information from cedants. We performed detailed analytical procedures on estimations related to premiums, commissions and technical provisions and assessed the experience (back testing) analysis performed by the Company in their assumption setting processes. We tested, on a sample basis, whether the input data in the model for recalculation of estimates is accurate and complete.

We reviewed the methodology and assumptions used by the Company to establish its IBNR losses and performed recalculation of Company's IBNR losses for a sample of the most significant lines of business. We reviewed the methodology used by the Company to calculate claim provisions established by estimation using actuarial methods. Furthermore, we performed a comparison between changes in IBNR losses in 2018 and actually liquidated claims in 2018 on a contract level. For any unexpected deviations in changes between IBNR losses and liquidated claims, we inquired with the management and obtained explanations. We performed additional testing procedures on a sample of reported but not settled losses (RBNS) to assess their adequacy. We verified the appropriateness of the valuation of unearned premium reserves (UPR) by detailed analytical procedures on estimations related to premiums, where we assessed the experience (back testing) analysis performed by the Company in their assumption setting processes. We also tested on a sample basis whether the input data in the model for recalculation of estimates is accurate and complete.

We assessed the adequacy of the disclosures included in notes 23.2.21 Technical provisions and 23.6.18 Technical provisions of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

**Other information**

Other information comprises the information included in the annual report other than the financial statements and auditor's report thereon. Management is responsible for the other information.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.



**Responsibilities of management, supervisory board and audit committee for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Company's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee and supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

**Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council**

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Company on 30 August 2016, our appointment was confirmed upon signing of engagement letter for audit of statutory financial statements on 28 October 2016. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 6 years.

Consistence with Additional Report to Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued on 27 March 2019.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services were provided by us to the Company and its controlled undertakings.

Ljubljana, 28 March 2019

Janez Uranič
Certified auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

# 22 Financial statements

## 22.1 Statement of financial position

| (EUR) | Notes | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **ASSETS** | | **606,331,055** | **580,886,180** |
| **Intangible assets** | **1** | **892,724** | **807,011** |
| **Property, plant and equipment** | **2** | **2,654,540** | **2,485,645** |
| **Deferred tax assets** | **3** | **1,867,370** | **1,238,826** |
| **Investment property** | **4** | **8,285,733** | **8,230,878** |
| **Financial investments in subsidiaries and associates** | **5** | **220,219,086** | **193,409,578** |
| **Financial investments:** | **6** | **244,291,434** | **250,781,685** |
| - loans and deposits | | 10,107,498 | 12,840,885 |
| - held to maturity | | 2,075,425 | 2,075,111 |
| - available for sale | | 228,151,616 | 235,456,116 |
| - at fair value through profit or loss | | 3,956,895 | 409,573 |
| **Reinsurers' share of technical provisions** | **7** | **21,437,221** | **20,073,571** |
| **Receivables** | **8** | **87,830,299** | **88,602,395** |
| Receivables arising out of primary insurance business | | 82,518,635 | 85,167,822 |
| Receivables arising out of co-insurance and reinsurance business | | 4,842,279 | 3,202,926 |
| Other receivables | | 469,385 | 231,647 |
| **Deferred acquisition costs** | **9** | **7,821,932** | **7,778,499** |
| **Other assets** | **10** | **379,264** | **799,634** |
| **Cash and cash equivalents** | **11** | **10,651,452** | **6,678,458** |

| (EUR) | Notes | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | **606,331,055** | **580,886,180** |
| **Equity** | | **319,355,361** | **290,966,155** |
| Share capital | 12 | 71,856,376 | 71,856,376 |
| Capital reserves | 13 | 54,239,757 | 54,239,757 |
| Profit reserves | 14 | 184,424,862 | 163,491,114 |
| Own shares | 15 | -24,938,709 | -24,938,709 |
| Fair value reserve | 16 | 2,697,381 | 3,804,764 |
| Reserve due to fair value revaluation | | 40,772 | 13,524 |
| Retained earnings | 17 | 10,101,172 | 6,012,233 |
| Net profit or loss for the period | 17 | 20,933,749 | 16,487,096 |
| **Technical provisions** | **18** | **234,173,078** | **232,639,163** |
| Unearned premiums | | 47,147,505 | 47,602,457 |
| Provision for outstanding claims | | 185,988,628 | 184,269,492 |
| Other technical provisions | | 1,036,945 | 767,214 |
| **Other provisions** | **19** | **376,521** | **351,250** |
| **Other financial liabilities** | **10** | **87,504** | **91,182** |
| **Liabilities from operating activities** | **20** | **49,185,680** | **54,404,921** |
| Liabilities from primary insurance business | | 44,039,129 | 51,160,114 |
| Liabilities from reinsurance and co-insurance business | | 3,149,394 | 3,090,008 |
| Current income tax liabilities | | 1,997,157 | 154,799 |
| **Other liabilities** | **21** | **3,152,911** | **2,433,509** |

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

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## 22.2 Income statement

| (EUR) | Notes | 2018 | 2017 |
|---|---|---|---|
| **Net earned premiums** | **23** | **133,740,178** | **130,864,620** |
| Gross premiums written | | 151,636,216 | 153,219,752 |
| Written premiums ceded to reinsurers and co-insurers | | -18,407,793 | -18,907,314 |
| Change in gross unearned premiums | | 454,952 | -4,257,043 |
| Change in unearned premiums, reinsurers' and co-insurers' shares | | 56,803 | 809,225 |
| **Income from investments in subsidiaries and associates** | **24** | **33,558,455** | **26,136,830** |
| **Investment income** | **25** | **10,953,196** | **9,652,630** |
| Interest income | | 3,589,693 | 3,895,944 |
| Other investment income | | 7,363,502 | 5,756,686 |
| **Other technical income** | **26** | **8,964,961** | **6,098,385** |
| Commission income | | 2,530,359 | 1,934,678 |
| Other income | | 6,434,602 | 4,163,707 |
| **Other income** | **27** | **701,331** | **444,136** |
| **Net claims incurred** | **28** | **-76,604,633** | **-78,583,967** |
| Gross claims payments, net of income from recourse receivables | | -82,687,678 | -83,525,449 |
| Reinsurers' and co-insurers' shares | | 6,495,334 | 5,982,760 |
| Change in the gross claims provision | | -1,719,136 | -2,101,712 |
| Change in the provision for outstanding claims, reinsurers' and co-insurers' shares | | 1,306,847 | 1,060,434 |
| **Change in other technical provisions** | **29** | **-268,920** | **-158,608** |
| **Expenses for bonuses and rebates** | **29** | **-811** | **85,678** |
| **Operating expenses** | **30** | **-47,563,317** | **-43,113,125** |
| Acquisition costs | | -34,848,052 | -33,185,632 |
| Change in deferred acquisition costs | | 43,433 | 880,778 |
| Other operating expenses | | -12,758,699 | -10,808,271 |
| **Expenses for investments in subsidiaries and associates** | **24** | **-4,020,539** | **0** |
| **Expenses for financial assets and liabilities** | **25** | **-8,496,351** | **-10,551,329** |
| Impairment loss on financial assets not measured at fair value through profit or loss | | -1,943,974 | -320,000 |
| Interest expenses | | 0 | -718,338 |
| Other expenses | | -6,552,377 | -9,512,991 |
| **Other technical expenses** | **31** | **-5,662,287** | **-5,876,562** |
| **Other expenses** | **27** | **-279,399** | **-234,824** |
| **Profit or loss before tax** | | **45,021,864** | **34,763,864** |
| **Income tax expense** | **32** | **-3,154,368** | **-1,789,672** |
| **Net profit or loss for the period** | | **41,867,497** | **32,974,192** |
| **Earnings/loss per share (basic and diluted)** | **17** | **2.70** | **2.13** |

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

## 22.3 Statement of other comprehensive income

| (EUR) | 2018 | 2017 |
|---|---|---|
| **PROFIT OR LOSS FOR THE PERIOD, NET OF TAX** | **41,867,497** | **32,974,192** |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | **-1,080,134** | **34,501** |
| **a) Items that will not be reclassified subsequently to profit or loss** | **27,248** | **15,289** |
| Other items that will not be reclassified subsequently to profit or loss | 29,779 | 16,894 |
| Tax on items that will not be reclassified subsequently to profit or loss | -2,531 | -1,605 |
| **b) Items that may be reclassified subsequently to profit or loss** | **-1,107,383** | **19,213** |
| **Net gains/losses on remeasuring available-for-sale financial assets** | **-1,367,140** | **23,719** |
| Net change recognised in the fair value reserve | -1,165,440 | 692,156 |
| Net change transferred from fair value reserve to profit or loss | -201,700 | -668,437 |
| Tax on items that may be reclassified subsequently to profit or loss | 259,758 | -4,506 |
| **COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX** | **40,787,363** | **33,008,694** |

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

## 22.4 Cash flow statement

| (EUR) | Notes | 2018 | 2017 |
|---|---|---|---|
| **A. Cash flows from operating activities** | | | |
| **a.) Items of the income statement** | **34** | **10,485,469** | **12,020,532** |
| 1. Net premiums written in the period | 23 | 133,228,423 | 134,312,438 |
| 2. Investment income (other than financial income) | 25 | 5,677 | 10,175 |
| 3. Other operating income (excl. revaluation income and releases from provisions) and financial income from operating receivables | 26.27 | 9,666,292 | 6,542,519 |
| 4. Net claims payments in the period | 28 | -76,192,344 | -77,542,688 |
| 5. Expenses for bonuses and rebates | 29 | -811 | 85,678 |
| 6. Net operating expenses excl. depreciation/amortisation and change in deferred acquisition costs | 30 | -47,125,714 | -43,573,077 |
| 7. Investment expenses (excluding amortisation and financial expenses) | 25 | 0 | -422 |
| 8. Other operating expenses excl. depreciation/amortisation (other than for revaluation and excl. additions to provisions) | 32 | -5,941,686 | -6,024,419 |
| 9. Tax on profit and other taxes not included in operating expenses | 33 | -3,154,368 | -1,789,671 |
| **b.) Changes in net operating assets (receivables for premium, other receivables, other assets and deferred tax assets/liabilities) of operating items of the statement of financial position** | | **-4,866,086** | **3,625,406** |
| 1. Change in receivables from primary insurance | 8 | 2,649,187 | -85,167,822 |
| 2. Change in receivables from reinsurance | 8 | -1,639,353 | 76,400,625 |
| 4. Change in other receivables and other assets | 8 | 182,632 | -248,958 |
| 5. Change in deferred tax assets | 3 | -628,544 | 134,610 |
| 7. Change in liabilities arising out of primary insurance | 20 | -7,120,985 | 51,160,115 |
| 6. Change in liabilities arising out of reinsurance business | 20 | 59,386 | -40,633,836 |
| 7. Change in other operating liabilities | 21 | 882,308 | 2,168,441 |
| 8. Change in other liabilities (except unearned premiums) | 21 | 749,283 | -187,768 |
| **c.) Net cash from/used in operating activities (a + b)** | | **5,619,383** | **15,645,938** |

| (EUR) | Notes | 2018 | 2017 |
|---|---|---|---|
| **B. Cash flows from investing activities** | | | |
| **a.) Cash receipts from investing activities** | | **998,709,965** | **762,460,219** |
| 1. Interest received from investing activities | 26 | 3,589,693 | 3,895,945 |
| 2. Cash receipts from dividends and participation in the profit of others | 26 | 34,234,600 | 26,755,664 |
| 4. Proceeds from sale of property, plant and equipment | | 12,319 | 9,879 |
| 5. Proceeds from sale of financial investments | | 960,873,353 | 731,798,731 |
| **b.) Cash disbursements in investing activities** | | **-987,958,197** | **-740,531,828** |
| 1. Purchase of intangible assets | | -326,455 | -269,153 |
| 2. Purchase of property, plant and equipment | | -396,476 | -208,526 |
| 3. Purchase of financial investments | | -987,235,267 | -740,054,149 |
| **c.) Net cash from/used in investing activities (a + b)** | | **10,751,768** | **21,928,391** |
| **C. Cash flows from financing activities** | | | |
| **b.) Cash disbursements in financing activities** | | **-12,398,157** | **-38,885,691** |
| 1. Interest paid | | 0 | -718,338 |
| 3. Repayment of long-term financial liabilities | | 0 | -24,000,000 |
| 4. Repayment of short-term financial liabilities | | 0 | -1,769,196 |
| 5. Dividends and other profit participations paid | | -12,398,157 | -12,398,157 |
| **c.) Net cash from/used in financing activities (a + b)** | | **-12,398,157** | **-38,885,691** |
| **C2. Closing balance of cash and cash equivalents** | | **10,651,452** | **6,678,458** |
| **x) Net increase/decrease in cash and cash equivalents for the period (Ac + Bc + Cc)** | | **3,972,994** | **-1,311,361** |
| **y) Opening balance of cash and cash equivalents** | | **6,678,458** | **7,989,819** |

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

## 22.5 Statement of changes in equity for the year ended 31 December 2018

| (EUR) | I. Share capital | II. Capital reserves | III. Profit reserves | | | | IV. Fair value reserve | Reserve due to fair value revaluation | V. Retained earnings | VI. Net profit or loss for the period | VII. Own shares (contra account) | Total (1–13) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Legal reserves and reserves provided for in the articles of association | Reserve for own shares | Catastrophe equalisation reserve | Other | | | | | | |
| | 1. | 2. | 4. | 5. | 7. | 8. | 9. | 10. | 11. | 12. | 13. | 14. |
| **Closing balance in previous financial year** | **71,856,376** | **54,239,757** | **14,986,525** | **24,938,709** | **10,000,000** | **113,565,881** | **3,804,764** | **13,524** | **6,012,233** | **16,487,096** | **-24,938,709** | **290,966,155** |
| **Opening balance in the financial period** | **71,856,376** | **54,239,757** | **14,986,525** | **24,938,709** | **10,000,000** | **113,565,881** | **3,804,764** | **13,524** | **6,012,233** | **16,487,096** | **-24,938,709** | **290,966,155** |
| **Comprehensive income for the period, net of tax** | **0** | **0** | **0** | **0** | **0** | **0** | **-1,107,383** | **27,248** | **0** | **41,867,497** | **0** | **40,787,363** |
| a) Net profit or loss for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 41,867,497 | 0 | 41,867,497 |
| b) Other comprehensive income | 0 | 0 | 0 | 0 | 0 | 0 | -1,107,383 | 27,248 | 0 | 0 | 0 | -1,080,134 |
| Dividend payouts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -12,398,157 | 0 | 0 | -12,398,157 |
| Allocation of net profit to profit reserve | 0 | 0 | 0 | 0 | 0 | 20,933,748 | 0 | 0 | 0 | -20,933,748 | 0 | 0 |
| Transfer of profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16,487,096 | -16,487,096 | 0 | 0 |
| **Closing balance in the financial period** | **71,856,376** | **54,239,757** | **14,986,525** | **24,938,709** | **10,000,000** | **134,499,629** | **2,697,381** | **40,772** | **10,101,172** | **20,933,748** | **-24,938,709** | **319,355,361** |

## 22.6 Statement of changes in equity for the year ended 31 December 2017

| (EUR) | I. Share capital | II. Capital reserves | III. Profit reserves | | | | IV. Fair value reserve | Reserve due to fair value revaluation | V. Retained earnings | VI. Net profit or loss for the period | VII. Own shares (contra account) | Total (1–13) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Legal reserves and reserves provided for in the articles of association | Reserve for own shares | Catastrophe equalisation reserve | Other | | | | | | |
| | 1. | 2. | 4. | 5. | 7. | 8. | 9. | 10. | 11. | 12. | 13. | 14. |
| **Closing balance in previous financial year** | **71,856,376** | **54,239,757** | **14,986,525** | **24,938,709** | **10,000,000** | **97,078,786** | **3,785,553** | **-1,765** | **9,283,163** | **9,127,228** | **-24,938,709** | **270,355,622** |
| **Opening balance in the financial period** | **71,856,376** | **54,239,757** | **14,986,525** | **24,938,709** | **10,000,000** | **97,078,786** | **3,785,553** | **-1,765** | **9,283,163** | **9,127,228** | **-24,938,709** | **270,355,622** |
| **Comprehensive income for the period, net of tax** | **0** | **0** | **0** | **0** | **0** | **0** | **19,213** | **15,289** | **0** | **32,974,192** | **0** | **33,008,693** |
| a) Net profit or loss for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 32,974,192 | 0 | 32,974,192 |
| b) Other comprehensive income | 0 | 0 | 0 | 0 | 0 | 0 | 19,213 | 15,289 | 0 | 0 | 0 | 34,502 |
| Dividend payouts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -12,398,157 | 0 | 0 | -12,398,157 |
| Allocation of net profit to profit reserve | 0 | 0 | 0 | 0 | 0 | 16,487,096 | 0 | 0 | 0 | -16,487,096 | 0 | 0 |
| Transfer of profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,127,228 | -9,127,228 | 0 | 0 |
| **Closing balance in the financial period** | **71,856,376** | **54,239,757** | **14,986,525** | **24,938,709** | **10,000,000** | **113,565,880** | **3,804,764** | **13,524** | **6,012,233** | **16,487,096** | **-24,938,709** | **290,966,155** |

The notes to the financial statements in sections 23.2–23.10 form an integral part of these financial statements.

# 23 Notes to the financial statements

## 23.1 Basic details

Pozavarovalnica Sava d.d. (hereinafter also: "Sava Re" or the "Company") was established under the Foundations of the Life and Non-Life Insurance System Act, and was entered in the company register kept by Ljubljana Basic Court, Ljubljana Unit (now Ljubljana District Court), on 10 December 1990. Its legal predecessor, Pozavarovalna Skupnost Sava, was established in 1977.

Sava Re transacts reinsurance business both in the domestic and in the international market. Under the Standard Classification of Activities, its subclass code is 65.200. In accordance with the Slovenian Companies Act (hereinafter: "ZGD"), it is classified as a large company.

The business address of Sava Re d.d. is Dunajska cesta 56, Ljubljana, Slovenia.

In the 2018 financial year, the Company had on average 103.3 (2017: 95.5) full-time equivalent employees. As at 31 December 2018, it had 110 (31/12/2017: 97) full-time equivalent employees. Data on employees in regular employment by various criteria are given in section 20.3 "Human resources management".

**Qualification profile of employees (full-time equivalent basis)**

| | 2018 | 2017 |
|---|---|---|
| Secondary education | 13 | 13 |
| Higher education | 5 | 4 |
| University education | 73 | 61 |
| Master's degree and doctorate | 19 | 19 |
| **Total** | **110** | **97** |

The bodies of the Company are the general meeting, the supervisory board and the management board.

As at 31 December 2018, the largest shareholder of the Company was Slovenian Sovereign Holding (former Slovenian Restitution Fund) with a 17.7% stake. The second largest shareholder is Zagrebačka Banka (custodial account) with a 14.2% stake, and the third largest the Republic of Slovenia with a 10.1% stake. Below the table "Ten largest shareholders at 31 December 2018" is a note regarding the share of voting rights.

It is the responsibility of the Company's management board to prepare the annual report and authorise it for issue to the supervisory board. The audited annual report is then approved by the Company's supervisory board. If the annual report is not approved by the supervisory board, or if the management and the supervisory boards leave the decision about its approval to the general meeting of shareholders, the general meeting decides on its approval.

The owners have the right to amend the financial statements after they have been authorised for issue to the supervisory board by the Company's management board.

Sava Re is the controlling company of the Sava Re Group, which comprises also the following companies:

**Subsidiaries as at 31 December 2018**

| (EUR) | Activity | Registered office | Assets | Liabilities | Equity as at 31 December 2018 | Profit or loss for 2018 | Total income | Share of voting rights (%) |
|---|---|---|---|---|---|---|---|---|
| Zavarovalnica Sava | insurance | Slovenia | 1,116,725,121 | 965,579,104 | 151,146,017 | 29,540,622 | 369,578,351 | 100.00% |
| Sava Neživotno Osiguranje (SRB) | insurance | Serbia | 37,424,870 | 23,539,092 | 13,885,778 | 1,049,526 | 19,382,373 | 100.00% |
| Illyria | insurance | Kosovo | 16,282,240 | 12,497,895 | 3,784,345 | -390,799 | 9,275,173 | 100.00% |
| Sava Osiguruvanje (MKD) | insurance | North Macedonia | 21,605,383 | 15,711,159 | 5,894,224 | 391,284 | 12,279,274 | 92.57% |
| Sava Osiguranje (MNE) | insurance | Montenegro | 24,107,226 | 17,795,094 | 6,312,132 | 1,943,280 | 12,967,612 | 100.00% |
| Illyria Life | insurance | Kosovo | 10,951,393 | 6,274,659 | 4,676,734 | 305,169 | 2,373,425 | 100.00% |
| Sava Životno Osiguranje (SRB) | insurance | Serbia | 7,556,316 | 4,051,087 | 3,505,229 | -168,562 | 2,551,457 | 100.00% |
| Illyria Hospital | currently none | Kosovo | 1,800,736 | 4,495 | 1,796,241 | -6 | 0 | 100.00% |
| Sava Car | technical research and analysis | Montenegro | 739,077 | 169,564 | 569,513 | -2,476 | 729,633 | 100.00% |
| ZM Svetovanje | consulting and marketing of insurances of the person | Slovenia | 159,874 | 81,844 | 78,030 | 16,513 | 958,813 | 100.00% |
| Ornatus KC | ZS call centre | Slovenia | 40,797 | 19,260 | 21,537 | -5,316 | 216,000 | 100.00% |
| Sava Agent | insurance agency | Montenegro | 1,970,854 | 1,853,597 | 117,257 | 80,911 | 701,752 | 100.00% |
| Sava Station | motor research and analysis | North Macedonia | 343,772 | 24,715 | 319,057 | 29,778 | 160,281 | 92.57% |
| Sava Pokojninska Družba | pension fund | Slovenia | 151,140,812 | 144,024,695 | 7,116,117 | 258,571 | 4,181,039 | 100.00% |
| TBS Team 24 | assistance service provider and customer care | Slovenia | 2,370,342 | 1,577,490 | 792,852 | 759,757 | 10,219,623 | 75.00% |
| Sava Penzisko Društvo | pension fund management | North Macedonia | 8,842,761 | 352,077 | 8,490,684 | 1,133,199 | 2,935,355 | 100.00% |
| Sava Terra | leasing and operation of own and leased property | Slovenia | 3,801,526 | 1,953,108 | 1,848,418 | -147,863 | 160,196 | 100.00% |

### Subsidiaries as at 31 December 2017

| (EUR) | Activity | Registered office | Assets | Liabilities | Equity at 31/12/2017 | Profit/loss for 2017 | Total income | Share of voting rights (%) |
|---|---|---|---|---|---|---|---|---|
| Zavarovalnica Sava | insurance | Slovenia | 1,151,811,161 | 993,756,083 | 158,055,078 | 25,080,999 | 344,712,649 | 100.00% |
| Sava Neživotno Osiguranje (SRB) | insurance | Serbia | 28,216,687 | 22,507,562 | 5,709,125 | 435,559 | 16,463,580 | 100.00% |
| Illyria | insurance | Kosovo | 15,577,678 | 11,538,509 | 4,039,169 | 223,576 | 7,689,674 | 100.00% |
| Sava Osiguruvanje (MKD) | insurance | North Macedonia | 22,867,851 | 17,374,464 | 5,493,387 | 358,257 | 12,277,755 | 92.57% |
| Sava Osiguranje (MNE) | insurance | Montenegro | 23,036,708 | 17,241,924 | 5,794,784 | 1,232,772 | 12,124,229 | 100.00% |
| Illyria Life | insurance | Kosovo | 12,699,600 | 8,502,872 | 4,196,728 | 230,850 | 2,038,449 | 100.00% |
| Sava Životno Osiguranje (SRB) | insurance | Serbia | 6,645,739 | 3,162,191 | 3,483,548 | -818,333 | 2,058,571 | 100.00% |
| Illyria Hospital | currently none | Kosovo | 1,800,742 | 4,579 | 1,796,163 | -114 | 0 | 100.00% |
| Sava Car | technical research and analysis | Montenegro | 634,723 | 42,188 | 592,535 | -3,991 | 724,473 | 100.00% |
| ZM Svetovanje | consulting and marketing of insurances of the person | Slovenia | 126,917 | 203,900 | -76,983 | -194,224 | 737,056 | 100.00% |
| Ornatus KC | ZS call centre | Slovenia | 48,314 | 21,461 | 26,853 | 15,853 | 216,000 | 100.00% |
| Sava Agent | insurance agency | Montenegro | 2,100,120 | 1,798,730 | 301,390 | 112,971 | 651,469 | 100.00% |
| Sava Station | motor research and analysis | North Macedonia | 316,750 | 25,614 | 291,136 | 39,731 | 175,454 | 92.57% |
| Sava Pokojninska | pension fund | Slovenia | 144,935,935 | 136,508,976 | 8,426,959 | 420,256 | 4,269,651 | 100.00% |

### Associates as at 31 December 2018

| (EUR) | 31/12/2018 |
|---|---|
| **ZTSR** | |
| Assets | 220,564 |
| Liabilities | 15,444 |
| Equity | 205,120 |
| Income | 0 |
| Profit or loss for the period | -44,880 |
| Portion of profit or loss belonging to the Group | -22,440 |
| **G2I** | |
| Assets | 813,069 |
| Liabilities | 5,266 |
| Equity | 807,803 |
| Income | 121 |
| Profit/loss for the period | -193,050 |
| Portion of profit or loss belonging to the Group | -33,784 |

## 23.2 Significant accounting policies

Below is a presentation of significant accounting policies applied in the preparation of the financial statements. In 2018, the Company applied the same accounting policies as in 2017.

### 23.2.1 Statement of compliance

Sava Re has prepared both separate and consolidated financial statements for the year ended 31 December 2018. The consolidated financial statements are part of this annual report. Annual reports are available on Sava Re's website and at its registered office.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee's ("IFRIC"), as adopted by the European Union. They have also been prepared in accordance with applicable Slovenian legislation (the Companies Act, "ZGD-1"), the Insurance Act and implementing regulations).

In selecting and applying accounting policies, as well as in preparing the financial statements, the management board aims to provide understandable, relevant, reliable and comparable accounting information.

The financial statements have been prepared based on the going-concern assumption.

The Company's management board approved the audited financial statements on 28 March 2019.

### 23.2.2 Measurement bases

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, which are measured at fair value.

### 23.2.3 Functional and presentation currency

The financial statements are presented in euros (EUR), rounded to the nearest euro. Due to rounding, figures in tables may not add up to the totals.

Assets and liabilities as at 31 December 2018 denominated in foreign currencies have been translated into euros using the mid-rates of the European Central Bank (hereinafter: "ECB") as at 31 December 2018. Amounts in the income statement have been translated using the exchange rate on the day of the transaction. As at 31 December 2018 and 31 December 2017, they were translated using the then applicable mid-rates of the ECB. Foreign exchange differences arising on settlement of transactions and on translation of monetary assets and liabilities are recognised in the income statement. Exchange rate differences associated with non-monetary items, such as equity securities carried at fair value through profit or loss, are also recognised in the income statement, while exchange rate differences associated with equity securities classified as available for sale are recognised in the fair value reserve.

### 23.2.4 Use of major accounting estimates and sources of uncertainty

Assumptions and other sources of uncertainty of estimates relate to estimates that require management to make difficult, subjective and complex judgements. Areas that involve major management judgement are presented below.

- Criteria for impairment of investments in subsidiaries and associates are determined using the accounting policy under section 23.2.13 as discussed under note 5.
- Deferred tax assets are recognised if the Company plans to realise a profit in the medium-term.
- Receivables are impaired item-by-item based on the accounting policy set out in section 23.2.16. Any recognised impairment loss is shown in note 8.
- Financial investments.

Classification, recognition, measurement and derecognition, as well as investment impairment and fair value measurement, are made based on the accounting policy set out in section 23.2.14. Movements in investments and their classification are shown in note 6, while the associated income and expenses, and impairment, are shown in note 25.

Technical provisions – calculation and liability adequacy tests pertaining to insurance contracts are shown in section 23.2.19. Movements in these provisions are shown in note 18.

The Company recognises estimates of technical items because it does not receive reinsurance accounts in time. Estimates are made on the basis of amounts in reinsurance contracts, which, according to contractual due dates, have already accrued, although the Company has yet to receive reinsurance accounts. These items include: premiums, claims, commissions, unearned premiums, claims provisions and deferred acquisition costs.

## 23.2.5 Materiality

To serve as a starting point in determining a materiality threshold for the financial statements, the Company's management used the equity of the Company, specifically 2% thereof as at 31 December 2018, which is EUR 6.4 million. The disclosures and notes required to meet regulatory or statutory requirements are presented, despite their being below the materiality threshold.

## 23.2.6 Cash flow statement

The cash flow statement has been prepared using the indirect method. Cash flows from operating activities have been prepared based on data from the 2018 statement of financial position and income statement, with appropriate adjustments for items that do not constitute cash flows. Cash flows from financing activities are shown based on actual disbursements. Items relating to changes in net operating assets are shown in net amounts.

## 23.2.7 Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the period. Profit reserves also include technical provisions that are inherently provisions for future risks and not liabilities according to IFRSs, i.e. the catastrophe equalisation reserve.

## 23.2.8 Intangible assets

Intangible assets are stated at cost, plus any costs directly attributable to preparing them for their intended use, less accumulated amortisation and any impairment losses. Amortisation is calculated for each item separately, on a straight-line basis. Intangible assets are first amortised upon their availability for use.

Intangible assets include computer software, and licences pertaining to computer software. Their useful life is 5 years.

## 23.2.9 Property, plant and equipment

Property, plant and equipment assets are initially recognised at cost, plus any directly attributable costs. Subsequently, the cost model is applied: assets are carried at cost, less any accumulated depreciation and any impairment losses. The Company assesses whether there is any indication of impairment. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

Property, plant and equipment assets are first depreciated upon their availability for use. Depreciation is calculated for each item separately, on a straight-line basis. Depreciation rates are determined so as to allow the cost of property, plant and equipment assets to be allocated over their estimated useful lives.

**Depreciation rates of property, plant and equipment assets**

| Depreciation group | Rate |
|---|---:|
| Land | 0% |
| Buildings | 1.3–2% |
| Transportation | 15.5–20% |
| Computer equipment | 33.0% |
| Office and other furniture | 10–12.5% |
| Other equipment | 6.7–20% |

Gains and losses on the disposal of items of property, plant and equipment, calculated as the difference between sales proceeds and carrying amounts, are included in profit or loss. The costs of property, plant and equipment maintenance and repairs are recognised in profit or loss as incurred. Investments in property, plant and equipment assets that increase future economic benefits are recognised in their carrying amount.

## 23.2.10 Right to use underlying assets during lease terms

As of 1 January 2019, the Company will include under assets the right to use lease assets as the present value of future lease payments due to the implementation of the new standard IFRS 16. The carrying amounts of the right-of-use assets will be reduced by means of adjustments equalling the remaining lease payments or amortisation calculated in view of the lease term. The Company will recognise lease payments relating to short-term and low-value leases as an expense.

### 23.2.11 Deferred tax assets and liabilities

Based on medium-term business projections, the Company expects to make a profit and it therefore meets the requirement for recognising deferred tax assets.

The Company recognises deferred tax assets for temporary non-deductible impairments of portfolio securities, allowances for receivables, any unused tax losses and provisions for employees. Deferred tax liabilities were recognised for catastrophe equalisation reserves transferred (as at 1 January 2007) from technical provisions to profit reserves, which used to be tax-deductible when set aside (prior to 1 January 2007). The Company does not have deferred tax assets associated with impairment losses on investments in subsidiaries.

In addition, the Company establishes deferred tax assets/liabilities for the part of value adjustments that is recorded under the negative/positive fair value reserve. Deferred tax assets and liabilities are also accounted for actuarial gains/losses arising on the calculation of provisions for severance payments. Actuarial gains/losses and the related deferred tax assets and liabilities affect comprehensive income.

The rate of corporate income tax is 19% (2017: 19%).

### 23.2.12 Investment property

Investment property is property that the Company does not use directly in carrying out its activities, but holds to earn rentals. Investment property is accounted for using the cost model and straight-line depreciation. Investment property is depreciated at the rate of 1.3–2%. The basis for calculating the depreciation rate is the estimated useful life. All leases where the Company acts as lessor are operating leases. Payments received, i.e. rental income, are recognised as income on a straight-line basis over the term of the lease. The Company assesses annually whether there is any indication of impairment of investment property. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of the value in use and the net selling price. If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

The Company has investment property leased out under cancellable operating lease contracts.

### 23.2.13 Financial investments in subsidiaries and associates

Investments in subsidiaries and associates are initially recognised at fair value. Subsequently, the Company measures them using the cost model less any impairment losses.

Subsidiaries are entities in which the Company holds more than 50% of voting rights and which the Company controls, i.e. has the power to control their financial and operating policies so as to obtain benefits from their activities. Associates are entities in which the Company holds between 20% and 50% of voting rights or over which the Company has significant influence.

Impairment testing in Group companies and associates is carried out at least on an annual basis. Pursuant to IAS 36, the controlling company, when reviewing whether there are indications that an asset may be impaired, considers external (changes in market or legal environment; interest rates; elements of the discount rate, market capitalisation) as well as internal sources of information (business volume; manner of use of asset; actual versus budgeted performance results; decline in expected cash flows and such like).

For the purpose of impairment testing of the cost of subsidiaries, pursuant to IAS 36, the controlling company reviews on an annual basis whether there are indications that assets are impaired. If impairment is necessary, an impairment test is carried out so that the recoverable amount of the cash-generating unit is calculated for each individual investment based on the value in use. Cash flow projections used in these calculations are based on the business plans approved by the management for the period until and including 2023, as well as on extrapolations of growth rates for an additional five-year period. Projections are for more than five years because we consider that the markets where Group insurers operate are still underdeveloped and operations of subsidiaries have not normalised yet. The discount rate used is based on market rates adjusted to reflect insurance company-specific risks. The recoverable amount of each cash-generating unit so calculated has been compared against its carrying amount.

**Key assumptions used in cash flow projections with calculations of the value in use**

Discounted cash flow projections are based on the Group's business plans covering a 10-year period (strategic business plans for individual companies for the period 2019–2023 with a further five-year extrapolation of results). Only 10-year normalised cash flows are appropriate for extrapolation into perpetuity.

The growth in premiums earned in the companies set out in the previous table reflects the growth expected in their insurance markets, as well as the characteristics of their portfolios (low share of non-motor business). In all their markets, insurance penetration is relatively low. However, insurance penetration is expected to increase due to the expected convergence of their countries' macroeconomic indicators towards EU levels. Social inflation is also expected to rise, i.e. claims made against insurance companies are expected to become more frequent and higher. Costs are expected to lag slightly behind premiums owing to business process optimisation in subsidiaries. Business process optimisation will thus contribute to the growth in net profits.

The discount rate is determined as cost of equity (COE), using the capital asset pricing model (CAPM). It is based on the interest rate applying to risk-free securities and equity premium, as well as insurance industry prospects. Added is a country risk premium and a smallness factor.

Discount rates used in 2018 ranged from 12.7% to 14.2%.

Subsidiaries have been valued using a long-term growth rate ranging from 2.5% to 3.0% to calculate the residual value. This rate is based on long-term inflation expected for the market in which a subsidiary operates, and on the long-term growth expected for the industry. In this, the long-term growth rate is compared against the risk-free rate of return (of a subsidiary), and may never exceed such risk-free rate of return as adjusted for inflation.

In assessing whether there is any indication of impairment of its investments in subsidiaries, the Company uses the same model as with goodwill. For more information on the assumptions, see section 17.4.9 of the consolidated financial statements with notes.

## 23.2.14 Financial investments

### 23.2.14.1 Classification

The Company classifies its financial assets into the following categories:

**Financial assets at fair value through profit or loss**

These assets comprise financial assets held for trading.

Financial assets held for trading comprise instruments that have been acquired exclusively for the purpose of trading, i.e. realising gains in the short term.

**Held-to-maturity financial assets**

Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Company can, and intends to, hold to maturity.

**Available-for-sale financial assets**

Available-for-sale financial assets are assets that the Company intends to hold for an indefinite period and are not classified as financial assets at fair value through profit or loss or held-to-maturity financial assets.

**Loans and receivables (deposits)**

This category includes loans and bank deposits with fixed or determinable payments that are not traded in any active market, and deposits with cedants. Under some reinsurance contracts, part of the reinsurance premium is retained by cedants as guarantee for payment of future claims, and generally released after one year. These deposits bear contractually-agreed interest.

### 23.2.14.2 Recognition, measurement and derecognition

Available-for-sale financial assets and held-to-maturity financial assets are initially measured at fair value plus any transaction costs. Financial assets at fair value through profit or loss are initially measured at fair value, with any transaction costs recognised as investment expenses.

Acquisitions and disposals of financial assets, loans and deposits are recognised on the trade date.

Gains and losses arising from fair value revaluation of financial assets available for sale are recognised in the statement of other comprehensive income, and transferred to the income statement upon disposal or impairment. Gains and losses arising from fair value revaluation of financial assets at fair value through profit or loss are recognised directly in the income statement. Held-to-maturity financial assets are measured at amortised cost less any impairment losses.

Financial assets are derecognised when the contractual rights from the cash flows from the financial assets expire or when the assets are transferred and the transfer qualifies for derecognition in accordance with IAS 39.

If their fair value cannot be reliably measured, investments are valued at cost.

Loans and receivables (deposits) are measured at amortised cost less any impairment losses.

### 23.2.14.3 Impairment of investments

A financial asset other than at fair value through profit or loss is impaired and an impairment loss incurred provided there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset and that have an impact on future cash flows that can be reliably estimated.

The Company assesses whether there is any objective evidence that individual financial assets are impaired on a three-month basis (when preparing interim and annual reports).

#### 23.2.14.3.1 Debt securities

Investments in debt securities are impaired only if one of the following conditions is met:

- the issuer fails to make a coupon or principal payment, and it is likely that such liabilities will not be settled in the short term;
- the issuer is subject to a bankruptcy, liquidation or compulsory settlement procedure.

If the first condition above is met, an impairment loss is recognised in the income statement in the amount of the difference between the fair value and carrying amount of the debt security (if the carrying amount exceeds the fair value).

If the second condition above is met, an impairment loss is recognised in profit or loss, being the difference between the potential payment out of the bankruptcy or liquidation estate and the cost of the investment. The potential payment out of the bankruptcy or liquidation estate is estimated based on information concerning the bankruptcy, liquidation or compulsory settlement proceedings, or, if such information is not available, based on experience or estimates made by credit rating or other financial institutions.

In respect of debt securities, only impairment losses recognised pursuant to indent one above (first condition) may be reversed. An impairment loss is reversed when the issuer's liability is settled. Impairment losses are reversed through profit or loss.

#### 23.2.14.3.2 Equity securities

Investments in equity securities are impaired if on the statement of financial position date:

- their market price is more than 40% below cost;
- their market price has remained below cost for more than one year;
- the model based on which the Company assesses the need for impairment of unquoted securities indicates that the asset needs to be impaired.

An impairment loss is recognised in the amount of the difference between market price and cost of financial assets.

### 23.2.14.4 Measurement of fair value

The Company measures all financial instruments at fair value, except for deposits, shares not quoted in a regulated market, loans and subordinated debt (assuming that their carrying amount is a reasonable approximation of their fair value), as well as financial instruments held to maturity, which are measured at amortised cost. The fair value of investment property and land and buildings used in business operations and the fair value of financial instruments measured at amortised cost is set out in note 22. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Company determines the fair value of a financial asset on the valuation date by determining the price on 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: the 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.

Assets and liabilities measured or disclosed at fair value in the financial statements are measured and presented in accordance with the IFRS 13 fair-value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value.

Assets and liabilities are classified in accordance with the IFRS 13 fair value hierarchy especially based on the availability of market information, which is determined by the relative levels of trading in identical or similar instruments in the market, with a focus on information that represents actual market activity or binding quotations of brokers or dealers.

Investments measured or disclosed at fair value are presented in accordance with the IFRS 13 fair value hierarchy, which categorises the inputs to the fair value measurement into the following three levels:

- Level 1: financial investments 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 whose fair value is determined using data that are directly or indirectly observable other than the prices quoted within level 1.
- Level 3: financial investments for which observed market data are unavailable. Their fair value is determined based on valuation techniques using inputs that are not directly or indirectly observable in the market.

The Company discloses and fully complies with its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred. Policies for the timing of recognising of transfers are the same for transfers into as for transfers out of any level. Examples of policies include: (a) the date of the event or change in circumstances that caused the transfer; (b) the beginning of the reporting period; (c) the end of the reporting period.

## 23.2.15 Reinsurers' share of technical provisions

Reinsurers' share of technical provisions comprises the reinsurers' share of unearned premiums and of technical provisions. Their amount is determined in accordance with reinsurance (retrocession) contracts and in line with movements in the retroceded portfolio based on gross reinsurance provisions for the business that is the object of such contracts, and is determined at the close of each accounting period.

The Company tests these assets for impairment on the reporting date. Assets retroceded to counterparties are tested strictly individually. For retrocession risks, see section 23.5.2.6 "Retrocession programme".

## 23.2.16 Receivables

Receivables include receivables for gross premiums written and receivables for claims and commissions relating to retrocession business.

### 23.2.16.1 Recognition of receivables

Receivables arising out of reinsurance business are recognised when inwards premiums or claims and commissions relating to retrocession business are invoiced to cedants or reinsurers respectively. For existing reinsurance contracts for which no confirmed invoices have been received from cedants or reinsurers, receivables are recognised in line with policies outlined in sections 23.2.23 "Net premiums earned" and 23.2.24 "Net claims incurred".

### 23.2.16.2 Impairment of receivables arising out of reinsurance business

The Company transacts its core reinsurance business exclusively with legal entities. Before entering a business relationship with a prospective client, especially if foreign, the Company carefully reviews its credit standing with regard to predefined criteria. If these are not met, the case is referred to the Company's credit rating committee, which issues an opinion on whether the credit standing is adequate. The Company individually assesses receivables in terms of their recoverability or impairment, accounting for allowances based on payment history of individual cedants and retrocessionaires.

The Company nevertheless periodically reviews its reinsurance receivables on a client-by-client basis, at least once a year.

No receivables have been pledged as security.

## 23.2.17 Deferred acquisition costs

The Company discloses deferred commissions under deferred acquisition costs. These are invoiced commissions relating to the next financial year and are recognised based on (re)insurance accounts taking into account straight-line amortisation and estimated amounts for non-past due final commission payments under reinsurance contracts with Group cedants.

## 23.2.18 Other assets

Other assets include capitalised short-term deferred costs and short-term accrued income. Short-term deferred costs comprise short-term deferred costs for prepayments of unearned commissions to counterparties.

## 23.2.19 Cash and cash equivalents

The statement of financial position and cash flow item "cash and cash equivalents" comprises:

- cash, including cash in hand, cash in bank accounts of commercial banks or other financial institutions and overnight deposits, and
- cash equivalents, including demand deposits and deposits with an original maturity of up to three months.

### 23.2.20 Equity

Composition:

- share capital, i.e. the par value of paid-up ordinary shares expressed in euro;
- capital reserves, i.e. amounts paid up in excess of the par value of shares;
- profit reserves, i.e. reserves provided for by the articles of association, legal reserves, reserves for own shares, credit risk and catastrophe equalisation reserves and other profit reserves;
- own shares;
- fair value reserve;
- retained earnings.

Reserves provided for by the articles of association are used:

- to cover the net loss that cannot be covered (in full) out of retained earnings and other profit reserves, or when these two sources of funds are insufficient to cover the net loss in full (an instrument of additional protection of tied-up capital);
- to increase share capital;
- to regulate the dividend policy.

Profit reserves also include catastrophe equalisation reserves set aside pursuant to the rules on the calculation of technical provisions for financial reporting purposes. Thus the distribution of these reserves cannot be decided in general meeting.

Pursuant to the Companies Act, either the management or the supervisory board may allocate up to half of net profit to other reserves.

### 23.2.21 Technical provisions

Technical provisions are shown gross in the statement of financial position. The share of gross technical provisions for the business retroceded by the Company is shown in the statement of financial position under the item reinsurers' share of technical provisions. The main principles used in the calculation of gross technical provisions are described below.

**Unearned premiums** are the portions of premiums written pertaining to periods after the accounting period. They are accounted for on the basis of received reinsurance accounts for unearned premiums, following the cedants' methods: mostly on a pro rata temporis basis at insurance policy level. In cases where the Company does not receive timely accounts for unearned premiums on reinsurance business, the fractional value method is used at individual premium account level for periods for which premiums are written.

**Provisions for outstanding claims** (also "claims provisions") are established for incurred but not settled claims. They comprise provisions for incurred claims, both reported and unreported (IBNR). They are set aside on the basis of received reinsurance accounts for provisions for outstanding claims and on the basis of received loss advices for non-proportional reinsurance business. Sava Re establishes the IBNR provision following three procedures. In the first procedure, the Company assumes a portion of the IBNR provision as calculated by cedants, observing the terms of relevant reinsurance contracts. In the second procedure, it is necessary to estimate the claims provision for business outside the Sava Re Group for which reinsurance accounts are not received timely to estimate technical categories, taking into account expected premiums and expected combined ratios for each underwriting year, class of business and form of reinsurance. As the triangular method is used in making estimates, the procedure also represents a liability adequacy test for the reinsurance portfolio outside the Sava Re Group. In the third procedure, the IBNR provision is calculated as part of the liability adequacy test for portfolio segments where reinsurance accounts are received timely and for which no estimates are made. This calculation is made for gross data of Slovenian cedants and subsidiaries at insurance class level, using development triangles of cumulative claim payments by underwriting year. If the provision for outstanding claims exceeds the one already set aside (and calculated based on reinsurance accounts), a reinsurance IBNR provision is set aside. The described procedures show that the outstanding claims provision is established based on statistical data and using actuarial methods; therefore, its calculation also constitutes a liability adequacy test.

**The provision for bonuses, rebates and cancellations** is intended for agreed and expected pay-outs due to good results of insurance contracts and expected payment due to cancellations in excess of unearned premiums. The Company calculates these provisions on the basis of reinsurance accounts for quota share reinsurance treaties with Group cedants.

**Other technical provisions** include provision for unexpired risks derived from a liability adequacy test of unearned premiums, as described below.

Unearned premiums are deferred premiums based on coverage periods. If based on such a calculation, the premium is deemed to be inadequate, the unearned premium is also inadequate. The Company carries out liability adequacy tests separately for gross unearned premiums and for the retroceded portion of unearned premiums at the insurance class level. Calculation of the expected combined ratio at insurance class level is based on the weighted average of the combined ratios realised in the last three to five years, which are also trend-adjusted. The calculation of the realised combined ratios is based on premiums earned, claims incurred, commission expenses and other operating expenses. Where the expected combined ratio so calculated exceeds 100%, thus revealing a deficiency in unearned premiums, a corresponding provision for unexpired risks is set aside within other technical provisions.

## 23.2.22 Other provisions

Other provisions comprise the net present value of employee benefits including severance payments upon retirement and jubilee benefits. They are calculated in accordance with IAS 19 based on the ratio of accrued service time in the Company to the entire expected service time in the Company (projected unit credit method).

They are calculated based on personal data of employees: date of birth, date of commencement of employment, anticipated retirement and salary. Entitlement to severance payments upon retirement and to jubilee benefits is based on the provisions of the collective bargaining agreement or individual employment contracts. Expected pay-outs also include tax liabilities where payments exceed statutory non-taxable amounts. The probability of an employee staying with the Company includes both the probability of death (based on tables SLO 2007 M/F) and the probability of employment relationship termination (based on internal data). Accordingly, the assumed annual real growth of salaries is based on internal data and the consumer price index. The assumed nominal growth in jubilee benefits equals expected inflation determined based on the ECB's long-term inflation target. The same term structure of risk-free interest rates is used for discounting as in the capital adequacy calculation under the Solvency II regime.

**Pension insurance**

The Company is required by law to pay pension insurance contributions on gross salaries at the rate of 8.85%. In addition, the Company concluded a contract in 2001 setting up a pension insurance scheme as part of the voluntary pension system, and has been making monthly contributions to it since then.

## 23.2.23 Other liabilities

Liabilities are initially recognised at amounts recorded in the relevant documents. Subsequently, they are increased in line with documents or decreased on the same basis or through payments. Other liabilities comprise: liabilities for claims and outwards retrocession premiums, liabilities for claims from inwards reinsurance contracts, liabilities for retained deposits, amounts due to employees, amounts due to clients and other short-term liabilities.

Lease liabilities are recognised by the Company in the same amount as the right to use the underlying assets. Liabilities are increased to reflect interest expense from discounting of lease payments, and reduced to reflect lease payments.

Provisions for unexpended annual leave are recognised under accruals and deferrals. Unexpended leave may be used by no later than 30 June of the succeeding year.

## 23.2.24 Classification of insurance contracts

The Company classifies contracts as insurance contracts if they are concluded to transfer a considerable portion of risk; otherwise, they are classified as investment contracts. Whether there has been a considerable transfer of risk may be established either (i) directly when the Company assumes risks from contracts on a proportional basis that have been classified as insurance contracts by their cedants, or (ii) indirectly by determining that a reinsured event would result in significant additional pay-outs.

The Company only transacts reinsurance business the basic purpose of which is the transfer of underwriting risk. All its reinsurance contracts are accordingly designated as insurance contracts. Proportional reinsurance contracts represent an identical risk as the underlying insurance policies, which are insurance contracts. Since non-proportional reinsurance contracts provide for the payment of significant additional pay-outs in case of loss events, they also qualify as insurance contracts.

## 23.2.25 Net premiums earned

Premiums earned are accounted for on an accrual basis, taking into account any increase in economic benefits in the form of inflows or increase in assets. Net premiums earned are gross premiums written (inwards reinsurance premiums), less reinsurance or retrocession premiums (outward reinsurance premiums). The amount of premiums earned is also affected by changes in (the Company's and reinsurers' shares of) unearned premiums. Estimates of premiums and unearned premiums are taken into account. Estimates are made on the basis of amounts in reinsurance contracts, which, according to contractual due dates, have already accrued, although the Company has yet to receive reinsurance accounts, or which are recognised on the basis of received estimates of final premiums that are yet to fall due according to contractual due dates. These items are used to calculate earned premiums in the income statement.

## 23.2.26 Net claims incurred

Claims and benefits incurred are accounted for on an accrual basis, taking into account any decrease in economic benefits in the form of outflows or decrease in assets. Net claims incurred comprise gross claims paid net of recourse receivables and reinsured claims, i.e. amounts invoiced to retrocessionaires. The amount of gross claims paid includes the change in the claims provision, taking also into account estimated claims and provisions for outstanding claims. Estimates are made on the basis of amounts in reinsurance contracts, which, according to contractual due dates, have already accrued although the Company has yet to receive reinsurance accounts. These items are used to calculate net claims incurred in the income statement. Claims incurred are estimated based on estimated premiums and expected combined ratios for individual reinsurance contracts.

## 23.2.27 Income and expenses relating to investments in subsidiaries and associates

Income relating to investments in subsidiaries and associates also includes dividends. Expenses relating to investments in subsidiaries and associates include impairment losses on investments. Dividend income is recognised when payout is authorised in accordance with the relevant general meeting resolution of any subsidiary or associate.

## 23.2.28 Investment income and expenses

The Company records investment income and expenses separately depending on whether they relate to the capital fund or the liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions.

Investment income includes:

- dividend income (income from shares),
- interest income,
- exchange gains,
- income from changes in fair value and gains on disposal of investments designated at fair value through profit or loss,
- gains on disposal of investments of other investment categories and
- other income.

Investment expenses include:

- interest expense,
- exchange losses,
- expenses due to changes in fair value and losses on disposal of investments designated at fair value through profit or loss,
- losses on disposal of investments of other investment categories,
- other expenses.

The above income and expenses are shown depending on how the underlying investments are classified, i.e. investments held to maturity, at fair value through profit or loss, available for sale, loans and receivables, or deposits.

Interest income and expenses for investments classified as held to maturity or available for sale are recognised in the income statement using the effective interest rate method. Interest income and expenses for investments at fair value through profit or loss are recognised in the income statement using the coupon interest rate. Dividend income is recognised in the income statement when payout is authorised. Gains and losses on the disposal of investments represent the difference between the carrying amount of a financial asset and its sale price, or between its cost less impairment, if any, and sale price in the case of investments available for sale.

### 23.2.29 Operating expenses

Operating expenses comprise:

- acquisition costs: these are reinsurance commissions recognised based on reinsurance accounts and estimates obtained from estimated premiums and contractually agreed commission rates;
- change in deferred acquisition costs: deferred costs comprise deferred reinsurance commission expenses. These are invoiced commissions relating to the next financial year. They are recognised based on reinsurance accounts and estimates obtained from estimated commissions taking into account straight-line amortisation;
- other operating expenses classified by nature, as follows:
  - i. depreciation/amortisation of operating assets,
  - ii. personnel costs including employee salaries, social and pension insurance costs and other personnel costs,
  - iii. remuneration of the supervisory board and audit committee; and payments under contracts for services,
  - iv. other operating expenses relating to services and materials.

### 23.2.30 Other technical income

Other technical income comprises income from reinsurance commissions less the change in deferred acquisition costs relating to reinsurers and recognised based on confirmed reinsurance accounts and estimated commissions taking into account straight-line amortisation.

### 23.2.31 Income tax expense

Income tax expense for the year comprises current and deferred tax. Income tax is presented in the income statement, except for the portion relating to the items presented in equity. The deferred tax for these items is also shown in equity. Current tax is payable on the taxable profit for the year using the tax rates enacted by the date of the statement of financial position, as well as on any adjustments to tax liabilities of prior periods. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax amount is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using the tax rates that have been enacted by the date of the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The rate of corporate income tax is 19% (2017: 19%).

## 23.3 Changes in accounting policies and presentation

In 2018, the Company did not change its accounting policies.

CONTENTS



## 23.4 Standards and interpretations issued but not yet effective, and new standards and interpretations

The accounting policies applied by the Company in preparing its financial statements are consistent with those of the previous financial year, except for the following new or amended IFRSs adopted by the Company for annual periods beginning on or after 1 January 2018.

### Amended standards that are already effective

**IFRS 9 Financial Instruments**

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard and considers postponing the application of IFRS 17 Insurance Contracts.

Due to the adoption of the new standard on insurance contracts, IFRS 17, insurance companies may apply the standard as of 1 January 2021. Late application is conditional upon the carrying amount of liabilities arising out of insurance business exceeding 90% of the total carrying amount of liabilities. The satisfaction of this condition was tested as at 31 December 2015. The calculation is shown in the table below. There have been no changes that would have any significantly effect on the satisfaction of the condition since 31 December 2015.

| (EUR) | 31/12/2015 | As % of total liabilities |
|---|---|---|
| Technical provisions and liabilities from operating activities | 268,773,864 | 94.7% |
| Technical provisions and liabilities from operating activities | 268,773,864 | 94.7% |
| **Liabilities under insurance contracts subject to IFRS 4** | **268,773,864** | **94.7%** |
| **Other liabilities** | **14,899,307** | **5.3%** |
| **Total liabilities*** | **283,673,171** | **100.0%** |

* Excluding equity, junior bonds and investment contract liabilities.

| (EUR) | 31/12/2018 | As % of total liabilities | 31/12/2017 | As % of total liabilities |
|---|---|---|---|---|
| Technical provisions and liabilities from operating activities | 281,361,601 | 98.0% | 286,889,285 | 99.0% |
| **Liabilities under contracts subject to IFRS 4** | **281,361,601** | **98.0%** | **286,889,285** | **99.0%** |
| **Other liabilities** | **5,614,093** | **2.0%** | **3,030,740** | **1.0%** |
| **Total liabilities*** | **286,975,694** | **100%** | **289,920,025** | **100%** |

* Excluding equity.

The following table shows SPPI test data on investment contracts.

| (EUR) | SPPI financial assets | | | Other financial assets | | |
|---|---|---|---|---|---|---|
| | Fair value as at 31/12/2017 | Change in fair value | Fair value as at 31/12/2018 | Fair value as at 31/12/2017 | Change in fair value | Fair value as at 31/12/2018 |
| Debt securities | 223,409,332 | -6,778,087 | 216,631,245 | 2,012,445 | 2,509,356 | 4,521,801 |
| Equity securities | 0 | 0 | 0 | 13,261,608 | 422,880 | 13,684,488 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and deposits | 7,737,189 | -3,754,586 | 3,982,602 | 0 | 0 | 0 |
| Cash and cash equivalents | 6,678,458 | 3,972,993 | 10,651,451 | 0 | 0 | 0 |
| **Total** | **237,824,979** | **-6,559,681** | **231,265,298** | **15,274,053** | **2,932,236** | **18,206,289** |

| Credit rating of SPPI assets as at 31/12/2018 | | | | | | |
|---|---|---|---|---|---|---|
| (EUR) | Total | AAA | AA/A | BBB | BB/B | Not rated |
| Debt securities | 215,977,646 | 77,950,080 | 98,067,601 | 37,292,717 | 2,579,301 | 87,948 |
| Loans and deposits | 3,832,188 | 0 | 0 | 0 | 0 | 3,832,188 |
| Cash and cash equivalents | 10,651,451 | 0 | 0 | 0 | 5,277,338 | 5,374,113 |
| **Total** | **230,461,285** | **77,950,080** | **98,067,601** | **37,292,717** | **7,856,640** | **9,294,248** |

| (EUR) | SPPI assets that do not have a low credit risk | |
|---|---|---|
| | Fair value as at 31/12/2018 | Carrying amount as at 31/12/2018 |
| Debt securities | 2,667,249 | 2,667,249 |
| Loans and deposits | 3,090,072 | 3,090,072 |
| Cash and cash equivalents | 5,277,338 | 5,277,338 |
| **Total** | **11,034,660** | **11,034,660** |

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Company's ordinary activities (e.g., sale of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The management has assessed that the Company is exempted from the application of the standard as it applies IFRS 4 Insurance Contracts, IAS 39 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements, and IAS 28 Investments in Associates and Joint Ventures.

**IFRS 15 Revenue from Contracts with Customers (Clarifications)**

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent, as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The management has assessed that the Company is exempted from the application of the standard.

**IFRS 2 Classification and Measurement of Share-based Payment Transactions — (Amendments)**

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations, and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The management has assessed the effect and believes that the Amendments will have no significant effect on the Company's financial statements.

**IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**

The Amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard IFRS 17, which is currently being developed and covers insurance contracts. The new standard is to replace IFRS 4. The Amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities issuing contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. Regarding the implementation of IFRS 9, the management has opted to apply the temporary exemption from this standard until the coming into force of IFRS 17.

**IAS 40 Transfers to Investment Property (Amendments)**

The Amendments clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

**IFRIC INTERPETATION 22 Foreign Currency Transactions and Advance Consideration**

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The management has assessed the effect and believes that the enforcement of the amendments will have no significant effect on the Company's financial statements.

## Issued Annual Improvements

The IASB has issued the Annual Improvements to IFRSs 2014–2016 Cycle, which is a collection of amendments to IFRSs. The management has assessed the effect and believes that the enforcement of the amendments will have no significant effect on the Company's financial statements.

### IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

### IAS 28 Investments in Associates and Joint Ventures

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

## Standards issued but not yet effective and not early adopted by the Company

### IFRS 16 Leases

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) or lessor. The new standard requires that most lease contracts are recognised in an entity's financial statements. Except for few exceptions, lessees will be able to use a uniform accounting model for all of the lease contracts. Lessor accounting is substantially unchanged. The management has assessed this impact on the financial statements.

As of 1 January 2019, the Company will recognise right-to-use assets on long-term leases (more than one year) in excess of USD 5,000 in accordance with IFRS 16, which applies as of 1 January 2019. The Company has reviewed all of its lease contracts, examining the right to control certain assets during a certain period. The lease term is set by the contract or determined as the non-cancellable period of lease together with the option to extend the lease. The Company calculates the right to use an underlying asset as the discounted future cash flows of the lease payments over the term of the lease. The discount rate applied takes into account the Company's credit rating and the lease term. The Company has entered into fixed payments leases only. Upon first application of the standard, it applied a simplified approach with recalculations for all lease contracts as at 1 January 2019.

| (EUR) | 01/01/2019 |
|---|---|
| **Operating lease liabilities recognised as at 01/01/2019** | **176,102** |
| Operating lease liabilities – discounting of lessee's incremental borrowing rate as at 01/01/2019* | 176,044 |
| **Interest liabilities relating to operating lease recognised as at 01/01/2019** | **-58** |
| Value of right-to-use assets as at 01/01/2019 (relating to operating leases) | 176,044 |
| **Finance lease liabilities recognised as at 01/01/2019** | **0** |
| **Interest liabilities relating to finance lease recognised as at 01/01/2019** | **0** |
| Value of right-to-use assets as at 01/01/2019 (relating to finance leases) | 0 |
| **Value of right-to-use assets as at 01/01/2019** | **176,044** |
| **Lease liabilities – depreciation as at 01/01/2019** | **176,102** |
| **Lease liabilities – interest as at 01/01/2019** | **-58** |
| **Relief option for:** | |
| - short-term leases | 1,320 |
| - low value leases | 794 |
| Extension and cancellation of lease option | 0.00 |
| Variable lease payments that depend on an index or rate | 0.00 |
| Residual value guarantee | 0.00 |
| **Total lease liabilities as at 01/01/2019** | **178,158** |

### IFRS 17 Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers, and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not yet been endorsed by the EU. The management has assessed the effect of the standard on the Company's financial statements and believes that the enforcement of the standard will have a significant effect on the Company's financial statements.

**Amendment to IFRS 10 Consolidated Financial Statements, and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss must be recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The Amendments to the standard have not yet been endorsed by the EU. The management believes that they will have no impact on the financial statements.

**IFRS 9 Prepayment features with negative compensation (Amendment)**

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset, there may be "negative compensation"), to be measured at amortised cost or at fair value through other comprehensive income. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

**IAS 28 Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the "net investment" in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity must apply IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The Amendments to the standard have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

**IFRIC INTERPETATION 23 Uncertainty over Income Tax Treatments**

The interpretation is effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty, and accounting for changes in facts and circumstances. The management has assessed the effect and believes that the enforcement of the interpretation will have no significant effect on the Company's financial statements.

**IAS 19 Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The Amendments to the standard have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

**Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

**IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020, and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted. The Amendments to the standard have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

**IAS 1 Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of "material" (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. They clarify the definition of "material" and how it should be applied. The new definition states that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of "material" is consistent across all IFRS Standards. The Amendments to the standard have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the Amendments will have no significant effect on the Company's financial statements.

## Issued annual improvements

The IASB has issued the Annual Improvements to IFRSs 2015–2017 Cycle, which is a collection of amendments to IFRSs. The Amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The Improvements have not yet been endorsed by the EU. The management has assessed the effect and believes that the enforcement of the amendments will have no significant effect on the Company's financial statements.

**IFRS 3 Business Combinations and IFRS 11 Joint Arrangements**

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

**IAS 12 Income Taxes**

The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits have been recognised.

**IAS 23 Borrowing Costs**

The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

## 23.5 Risk management[147]

The Company is exposed to various risks in its operations, which it identifies, measures, manages and monitors, and reports on them in accordance with the processes described in section B.3. The Company is exposed to the following risks:

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

### 23.5.1 Capital adequacy of Sava Re

For calculating its capital requirements under Solvency II, Sava Re uses the standard formula. The full solvency capital requirement is calculated annually, while eligible own funds supporting solvency requirements are calculated on a quarterly basis.

The following table shows the Company's capital adequacy calculation as at 31 December 2017[148].

**Capital adequacy of Sava Re**

| (EUR) | 31/12/2017 |
|---|---|
| Eligible own funds | 453,565,280 |
| Minimum capital requirement (MCR) | 40,018,150 |
| Solvency capital requirement (SCR) | 160,072,599 |
| **Solvency ratio** | **283.3%** |

Sava Re's unaudited eligible own funds as at 30 September 2018 totalled EUR 477.2 million and were slightly higher than as at 31 December 2017 (EUR 453.6 million). Please note that in quarterly calculations, eligible own funds were not reduced by foreseeable dividends for 2018, while they were reduced by foreseeable dividends as at 31 December 2017.

We estimate that the level of the Company's eligible own funds at the end of the year is slightly above the level as at 31 December 2017. Due to higher solvency capital requirement, we also expect the solvency ratio as at 31 December 2018 to be slightly lower than as at 31 December 2017, but still high.

Detailed results of Sava Re's capital adequacy calculation as at 31 December 2018 will be presented in the Solvency and financial condition report of Sava Re in April 2019.

[147] GRI 102-11

[148] During the preparation of the audited annual report, Sava Re is yet to obtain audited capital adequacy data for 2018. The capital adequacy calculation will be published in Sava Re's Solvency and financial condition report for 2018 to be released no later than 22 April 2019.

### 23.5.1 Sava Re risk profile

The following table shows the changes in the risk profile in 2018 compared to 2017. The risks have been assessed with regard to the potential volatility of business results and the resulting impact on the Company's financial statements. The potential impact of extreme internal or external risks on the Company's solvency position is set out in the Solvency and financial condition report of Sava Re d.d.

**Change in the Sava Re risk profile compared to the previous year**

| | Risk rating | Risk described in section |
|---|---|---|
| **Insolvency risk** | **low** | **23.5.1** |
| **Non-life underwriting risk** | | **23.5.2** |
| Underwriting process risk | medium | 23.5.2.1 |
| Pricing risk | medium | 23.5.2.2 |
| Claims risk | medium | 23.5.2.3 |
| Net retention risk | low | 23.5.2.4 |
| Reserve risk | low | 23.5.2.5 |
| Retrocession programme | low | 23.5.2.6 |
| **Financial risks** | | **23.5.3** |
| Risk of financial investments in subsidiaries and associates | medium | 23.5.3.1 |
| Interest rate risk | medium | 23.5.3.2.1 |
| Equity risk | medium | 23.5.3.2.2 |
| Alternative investment risk | low | 23.5.3.2.3 |
| Currency risk | medium | 23.5.3.2.4 |
| Liquidity risk | low | 23.5.3.3 |
| Credit risk | medium | 23.5.3.4 |
| **Operational risks** | **medium** | **23.5.4** |
| **Strategic risks** | **medium** | **23.5.5** |

## 23.5.2 Underwriting risk

Underwriting risks that are important for the Company comprise mainly underwriting process risk, pricing risk, claims risk, net retention risk and reserve risk. Some other underwriting risks, such as product design risk, economic environment risk and policyholder behaviour risk are important mainly for insurers, but are transferred to reinsurance companies, especially through proportional reinsurance treaty arrangements. Such risks can only be managed through appropriate underwriting, additional requirements or clauses in reinsurance contracts and through an appropriate retrocession programme. The risks relating to product design, economic environment or policyholder behaviour are therefore not be dealt with separately in this section.

Sava Re only assumes underwriting risk from its subsidiaries and other cedants. It retains part of the assumed risk and retrocedes any excess over its capacity. Sava Re classifies all reinsurance contracts as insurance contracts within the meaning of IFRS 4. As the Company has no reinsurance contracts that qualify as financial contracts, we give below a detailed description of the risks arising from insurance contracts, as required under IFRS 4.

### 23.5.2.1 Underwriting process risk

In respect of proportional reinsurance treaties, Sava Re follows the fortune of its ceding companies, while with facultative contracts, the decision on assuming a risk is on Sava Re.

It follows from the above that in order to manage this risk, it is essential to review the practices of existing and future ceding companies and to analyse developments in the relevant markets and in the relevant classes of insurance. Consequently, coverage may only be granted by taking into account internal underwriting guidelines. These define the requirements for partners, the minimum required level of information about the business, and the expected range of profitability. In addition, they also define the underwriting process and levels of authority, so that appropriate controls are included in the process. Sava Re's professionals with relevant qualifications assist in the underwriting of large risks assumed (and subsequently reinsured with the controlling company) by the Company's subsidiaries.

The following table shows exposure measured by the number of contracts and aggregated limits of contracts. The sum does not include unlimited motor third-party liability XL covers that are fully retroceded.

**Breakdown of reinsurance contracts and limits (before retrocession)**

| (EUR) | U/W year 2018 | | U/W year 2017 | |
|---|---|---|---|---|
| Form of contract | No. of contracts | Aggregate limit | No. of contracts | Aggregate limit |
| Treaty business | 752 | 1,440,388,717 | 755 | 1,436,874,324 |
| Facultative contracts | 198 | 785,077,583 | 219 | 916,403,018 |
| **Total** | **950** | **2,225,466,299** | **974** | **2,353,277,342** |

Aggregate limits decreased slightly in 2018 compared to 2017 as a result of the fall in premium income both in treaty and facultative business.

We believe that the reinsurance underwriting process risk is well managed. Sava Re reduces underwriting risk through partial or full retrocession.

### 23.5.2.2 Pricing risk

Pricing risk is the risk that the reinsurance premiums charged will be insufficient to cover liabilities under reinsurance contracts.

In proportional reinsurance contracts, reinsurance premiums depend on insurance premiums, mostly set by ceding companies, while the risk premium also depends on the commission recognised by the reinsurer. Therefore, this risk is managed by appropriate underwriting of risks to be reinsured and relevant adjustments to the commission policy. Likewise in respect of non-proportional reinsurance treaties, the pricing risk is managed by properly underwriting the risks to be reinsured and by determining adequate reinsurance premiums. Expected results of reinsurance contracts entered into on the basis of available information and set prices must be in line with target combined ratios; the adequacy of prices is verified based on the results by form and class of reinsurance.

The international reinsurance market remains in a soft phase, but as reinsurance underwriting is adequately managed, pricing risk for Sava Re was assessed as moderate in 2018, the same as in 2017.

### 23.5.2.3 Claims risk

Claims risk is the risk that the number of claims or the average claim amount will be higher than expected. In proportional reinsurance business, this risk is closely connected with the same risk borne by ceding companies, which may arise due to incorrect assessments made in underwriting, changes in court practice, new types of losses, increased public awareness of the rights attached to insurance contracts, macroeconomic changes, etc. In non-proportional reinsurance business, the Company has greater control over the expected claims risk through direct control over pricing; however, since this business is more volatile, the risk is managed mainly through portfolio diversification. A treaty may be either very profitable for the reinsurer (if there are no losses in excess of a predetermined amount, the priority) or very unprofitable, if the loss exceeds the priority.

This risk is managed by appropriate underwriting, controlling risk concentration in a particular location or geographical area, and by adequate retrocession programmes.

Although we are altering the composition of the portfolio to maximise profitability, we assess that there was no material difference between the claims risk in 2018 and in 2017.

### 23.5.2.4 Net retention risk

Net retention risk is the risk that higher retention of insurance loss exposures will result in large aggregate losses due to catastrophic or concentrated claims experience. This risk may also materialise in the event of "shock losses", where a large number of insured properties are impacted. This may occur especially through losses caused by natural peril events, which are generally covered by a basic or an additional fire policy or by a policy attached to an underlying fire policy (e.g. business interruption policy or earthquake policy).

Sava Re manages net retention risk by way of (i) appropriate professional underwriting of the risks to be insured, (ii) measuring the exposure (based on model results and by aggregating sums insured) by geographical area for individual natural perils, and especially by (iii) designing an appropriate reinsurance programme. In managing this risk, we take into account that maximum net aggregate losses in any one year are affected both by the maximum net claim arising from a single catastrophe event and by the frequency of such events.

The table below shows exposure to natural perils and/or diversification by region.

**Earthquake aggregates by region**

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| EU Member States | 542,882,004 | 715,311,374 |
| Non-EU members | 160,318,981 | 145,878,443 |
| Russia and CIS | 21,161,391 | 25,643,619 |
| Africa | 47,851,860 | 45,086,397 |
| Middle East | 37,033,685 | 41,093,991 |
| Asia | 248,828,480 | 266,641,834 |
| Latin America | 81,878,085 | 73,780,223 |
| USA and Canada | 13,180,370 | 22,615,761 |
| Caribbean Islands | 50,040,772 | 31,182,220 |
| Oceania | 29,960,121 | 25,526,052 |
| **Total** | **1,233,135,749** | **1,392,759,913** |

**Flood aggregates by region**

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| EU Member States | 416,150,390 | 406,401,295 |
| Non-EU members | 124,947,259 | 94,430,451 |
| Russia and CIS | 21,153,891 | 25,636,119 |
| Africa | 47,851,860 | 45,086,397 |
| Middle East | 18,588,363 | 23,244,580 |
| Asia | 193,177,509 | 216,938,451 |
| Latin America | 81,878,085 | 73,780,223 |
| USA and Canada | 14,884,870 | 22,615,761 |
| Caribbean Islands | 47,866,859 | 31,182,220 |
| Oceania | 29,960,121 | 25,526,052 |
| **Total** | **996,459,208** | **964,841,551** |

**Storm aggregates by region**

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| EU Member States | 405,443,008 | 401,286,042 |
| Non-EU members | 124,934,249 | 94,417,441 |
| Russia and CIS | 21,153,891 | 25,636,119 |
| Africa | 47,851,860 | 45,086,397 |
| Middle East | 18,588,363 | 23,244,580 |
| Asia | 194,532,854 | 218,463,679 |
| Latin America | 81,878,085 | 71,895,308 |
| USA and Canada | 16,514,704 | 22,615,761 |
| Caribbean Islands | 47,866,859 | 31,182,220 |
| Oceania | 29,960,121 | 25,526,052 |
| **Total** | **988,723,994** | **959,353,601** |

In 2018, the aggregate exposure to natural catastrophes by region declined slightly, and so did the absolute level of risk (the exposure to earthquakes declined and the exposure to floods and storms increased). We estimate that, in relative terms, retention risk was at the same level in 2018 and 2017. Sava Re was not seriously endangered due to its adequate retention limits and adequate retrocession programme, as shown in the section on estimated exposure to underwriting risks.

### 23.5.2.5 Reserve risk

Reserve risk is the risk of insufficiency of technical provisions and may occur because of inaccurate actuarial estimates or an unexpectedly unfavourable loss development. It may be a result of new types of losses that have not been excluded in cedants' insurance conditions and for which no claims provisions have been established yet, which is common with liability insurance contracts but can also happen due to changed court practices. We consider that this risk does exist; however, it is minor.

Sava Re manages reserve risk by strict adherence to the internal procedures and rules on technical provisions, by applying recognised actuarial methods by critically using information received from ceding companies on reinsurers' shares of their claims provisions and, especially, by adopting a sufficiently prudent approach in setting the level of technical provisions, which is described in the notes to technical provisions.

Unlike primary insurers, Sava Re cannot use triangles of paid losses based on accident year data for actuarial estimations. This is because ceding companies report claims under proportional treaties by underwriting year. As claims under one-year policies written during any one year may occur either in the year the policy is written or in the year after, aggregate data for proportional reinsurance contracts are not broken down by accident year. Furthermore, some markets renew treaty business during the year, resulting in additional discrepancies between the underwriting year and the accident year.

In line with reinsurance practice, Sava Re analyses data concerning claims paid by underwriting year and estimates its future liabilities with respect to individual underwriting years by using appropriate actuarial methods. The estimated liabilities relate to claims that have already been incurred (reported and not reported) and the settlement of which is covered by the claims provision, and claims that have not yet been incurred and the settlement of which is covered by unearned premiums, net of deferred commission.

Owing to this, the following two tables include as originally estimated gross or net liabilities. At any year-end claims provisions are included plus unearned premiums less deferred commissions, which are compared to subsequent estimates of these liabilities. Such testing or analysis of whether technical provisions are adequate can only be applied to past years — the further back in time, the more precise the results. Given that technical provisions are calculated using consistent actuarial methods, we can conclude, based on past discrepancies between originally estimated liabilities and subsequently established actual liabilities at individual dates of the statement of financial position, that the provisions as at 31 December 2018 are adequate.

**Adequacy analysis of gross technical provisions for past years**

| (EUR thousand) | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| Estimate of gross liabilities | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| As originally estimated | 199,339 | 207,416 | 209,963 | 218,615 | 224,093 | 225,314 |
| Reestimated as of 1 year later | 170,890 | 183,590 | 191,260 | 191,207 | 196,533 | |
| Reestimated as of 2 years later | 160,099 | 174,579 | 175,447 | 177,623 | | |
| Reestimated as of 3 years later | 156,865 | 164,654 | 165,546 | | | |
| Reestimated as of 4 years later | 147,772 | 157,337 | | | | |
| Reestimated as of 5 years later | 142,401 | | | | | |
| **Cumulative gross redundancy (latest estimate – original estimate)** | **56,938** | **50,079** | **44,417** | **40,993** | **27,561** | |
| Cumulative gross redundancy as % of original estimate | 28.6% | 24.1% | 21.2% | 18.8% | 12.3% | |

**Adequacy analysis of net technical provisions for past years**

| (EUR thousand) | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| Estimate of net liabilities | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| As originally estimated | 173,344 | 177,031 | 194,262 | 200,824 | 204,479 | 204,392 |
| Reestimated as of 1 year later | 153,577 | 161,973 | 175,595 | 175,066 | 178,102 | |
| Reestimated as of 2 years later | 142,529 | 151,267 | 159,178 | 158,850 | | |
| Reestimated as of 3 years later | 137,887 | 140,291 | 147,913 | | | |
| Reestimated as of 4 years later | 127,700 | 131,429 | | | | |
| Reestimated as of 5 years later | 120,791 | | | | | |
| **Cumulative gross redundancy (latest estimate – original estimate)** | **52,554** | **45,602** | **46,349** | **41,975** | **26,377** | |
| Cumulative gross redundancy as % of original estimate | 30.3% | 25.8% | 23.9% | 20.9% | 12.9% | |

The cumulative gross redundancies for the underwriting years from 2013 to 2016 increased compared to amounts at the end of the preceding year, which were 25.9%, 20.6%, 16.4% and 12.5% of original estimates. The cumulative net redundancies for the underwriting years from 2013 to 2016 are also larger than the amounts at the end of the preceding year, which were 26.3%, 20.8%, 18.1% and 12.8% of original estimates.

The cumulative gross and net redundancies are a result of prudent estimation of liabilities. They are also partly due to the fact that unearned premiums calculated based on the pro rata temporis rule, less deferred commissions, for those classes of business where loss ratios are significantly below 100% are too large by the very nature of the calculation method. This is also the reason why the reestimate as of one year later is quickly decreasing compared to the original estimate, as unearned premiums relating to one-year insurance contracts are largely released in the following year when any redundancy is also released. Subsequent reestimates are slowly decreasing; and only after a long time do they stabilise.

In respect of those classes of insurance where the sum of the claims ratio and the expense ratio exceeds 100%, Sava Re sets aside provisions for unexpired risks in addition to unearned premiums, as described in the notes to technical provisions.

Due to the high cumulative redundancies of both gross and net technical provisions, we estimate that reserve risk at the end of 2018 is relatively small and similar to that at year-end 2017.

### 23.5.2.6 Retrocession programme

An adequate retrocession programme is fundamental for managing the underwriting risk that Sava Re is exposed to. The programmes are designed to reduce potentially large risk exposures as largest amounts set out in the tables of maximum retentions are used only exceptionally with best risks. Sava Re uses retrocession treaties to diversify risk. The Company's net retained insurance portfolio (relating to both Group and other ceding companies) is further covered for potentially large losses through prudently selected non-proportional reinsurance. In 2018, this was slightly adjusted to portfolio growth and expanded with cover against an increased frequency of catastrophic events:

- The natural catastrophe excess of loss cover for Slovenia for all Group companies has two instead of one payable reinstatement in the first two layers.
- A sublayer was added to the catastrophe excess of loss cover for non-Group business with a priority of EUR 5 million to protect against a higher frequency of events in one year. If the Company, after the main cover, suffers a total loss of EUR 6 million, the sub-layer will provide a cover for the subsequent loss events of EUR 3 million above the priority of EUR 2 million.
- The motor liability excess of loss cover for the Group portfolio has a priority of EUR 1.5 million (previously EUR 1 million) and a capacity of EUR 4.5 million (previously EUR 5 million).
- The general liability excess of loss cover for the Group portfolio has a priority of EUR 2 million (previously EUR 1 million) and a capacity of EUR 3 million.
- The marine excess of loss cover for the Group and non-Group portfolio has been unified and now operates per risk and per event (previously only for the Group portfolio, while the non-Group portfolio had been covered per event only). The cover has a priority of EUR 2 million (previously EUR 1 million) and a capacity of EUR 4 million (previously EUR 2.5 million).

### 23.5.2.7 Estimated exposure to underwriting risks

Sava Re's maximum net retentions and its retrocession programmes are of key importance to estimating the exposure to underwriting risks. The net retention limit is set at EUR 4 million for the majority of non-life classes of insurance and a combined limit of EUR 4 million is used for the classes fire and natural forces, other damage to property and miscellaneous financial loss; a net retention limit of EUR 2 million is set for motor liability and for marine; for life policies net retention limits are uniformly set at EUR 300,000. In principle, this caps any net claim arising out of any single loss event at a maximum of EUR 4 million. In case of any catastrophe event, e.g. flood, hail, storm or even earthquake, the maximum net claim payable is limited by the priority of the non-proportional reinsurance programme (protection of net retention), which is EUR 5 million for Group business as well as extra-Group business. These amounts represent the maximum net claim for a single catastrophe event based on reasonable actuarial expectations. In some international markets (India, USA, China), this retention may be exceeded, but cannot be larger than EUR 8 million.

In case of multiple catastrophic events in any single year, the non-proportional treaties include reinstatement provisions. Hence, the probability that a large number of catastrophe events would compromise the solvency position of Sava Re is negligible. Due to the random fluctuation in the number of catastrophic events, an increase in net claims must always be expected. This would negatively impact business results, but would certainly pose no threat to Sava Re's solvency.

If the net combined ratio changed due to higher/lower underwriting risks by one percentage point, net profit before tax would change by EUR 1.4 million (2017: EUR 1.3 million). In 2018, an additional maximum net claim of EUR 5 million would have deteriorated the combined ratio by 3.6% (2017: 3.8%), which is still acceptable.

The probability that the underwriting risk may seriously undermine the Company's financial stability is deemed, according to our assessment, to have been low in both 2018 and 2017.

## 23.5.3 Financial risks

In its financial operations, Sava Re is exposed to financial risks, including market, liquidity and credit risk.

### 23.5.3.1 Risk of financial investments in subsidiaries and associates

Regarding the risk related to its financial investments in subsidiaries and associates, Sava Re is especially exposed to the risk of a decline in these investments and to the concentration risk. Among its financial investments in subsidiaries and associates, Sava Re has one major exposure, i.e. the investment in Zavarovalnica Sava, the value of which accounts for 56.0% (2017: 63.8%) of the total value of its financial investments in subsidiaries and associates.

As at 31 December 2018, Sava Re's total exposure to the risk of financial investments in subsidiaries and associates was EUR 220.2 million (31/12/2017: EUR 193.4 million).

Sava Re manages the risk related to its financial investments in subsidiaries and associates through active governance, comprising:

- a governance system (management and supervision), and clear segregation of responsibilities at all levels;
- risk management policy;
- systematic risk management with a three-lines-of-defence framework (discussed in detail in section 11 "Risk management");
- the setting of business and risk management strategies from the top down, 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.

**Assessed sensitivity of investments in subsidiaries and associates**

| (EUR) | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| Value decrease | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| of -10% | 220,219,086 | 198,197,177 | -22,021,909 | 193,409,578 | 174,068,620 | -19,340,958 |
| of -20% | 220,219,086 | 176,175,269 | -44,043,817 | 193,409,578 | 154,727,662 | -38,681,916 |
| largest individual subsidiary of -10% | 123,364,959 | 111,028,463 | -12,336,496 | 123,364,959 | 111,028,463 | -12,336,496 |
| largest individual subsidiary of -20% | 123,364,959 | 98,691,967 | -24,672,992 | 123,364,959 | 98,691,967 | -24,672,992 |

Exposure to the risk related to financial investments in subsidiaries and associates in 2018 was at a slightly higher level than in 2017, as Group complexity increased with new acquisitions. This also explains a slight drop in the percentage of total financial investments represented by the largest exposure, to Zavarovalnica Sava, and the increase in diversification. Taking account of all the impacts we believe that the risk related to participations increased slightly, but still remained medium due to its active management.

### 23.5.3.2 Market risk

**Financial investments exposed to market risk**

| (EUR) Type of investment | 31/12/2018 | 31/12/2018 As % of total 31/12/2018 | 31/12/2017 | As % of total 31/12/2017 | Absolute difference 31/12/2018 / 31/12/2017 | Change in structure 31/12/2018 / 31/12/2017 |
|---|---|---|---|---|---|---|
| Deposits and CDs | 2,331,604 | 0.9% | 2,398,614 | 0.9% | -67,010 | 0.0% |
| Government bonds | 120,829,371 | 45.9% | 116,270,045 | 43.8% | 4,559,326 | 2.1% |
| Corporate bonds | 98,080,588 | 37.3% | 108,409,148 | 40.8% | -10,328,560 | -3.5% |
| Shares (excluding strategic shares) | 8,720,953 | 3.3% | 10,399,227 | 3.9% | -1,678,274 | -0.6% |
| Mutual funds | 3,102,927 | 1.2% | 2,862,382 | 1.1% | 240,546 | 0.1% |
| bonds funds | 2,377,213 | 0.9% | 2,564,660 | 1.0% | -187,448 | -0.1% |
| equity funds | 725,715 | 0.3% | 297,721 | 0.1% | 427,993 | 0.2% |
| Infrastructure | 1,860,608 | 0.7% | 0 | 0.0% | 1,860,608 | 0.7% |
| Loans granted and other | 3,090,072 | 1.2% | 4,609,924 | 1.7% | -1,519,852 | -0.6% |
| Deposits with cedants | 6,275,310 | 2.4% | 5,832,346 | 2.2% | 442,964 | 0.2% |
| **Financial investments** | **244,291,434** | **92.8%** | **250,781,685** | **94.4%** | **-6,490,252** | **-1.6%** |
| Investment property | 8,285,733 | 3.1% | 8,230,878 | 3.1% | 54,856 | 0.0% |
| Cash and cash equivalents | 10,651,452 | 4.0% | 6,678,458 | 2.5% | 3,972,994 | 1.5% |
| **Total financial investments** | **263,228,618** | **100.0%** | **265,691,021** | **100.0%** | **-2,462,403** | **0.0%** |

The value of financial investments exposed to market risk decreased by EUR 2.5 million in 2018 compared to year-end 2017, which is explained in section 20.2.1.1. of the business report part.

#### 23.5.3.2.1 Interest rate risk

Interest rate risk is the risk that the Company will suffer a loss as a result of fluctuations in interest rates, resulting in a decrease in the value of assets or an increase in liabilities. Given that according to the prescribed methodology for the calculation of technical provisions for the purpose of financial statements, Sava Re does not have interest-rate sensitive technical provisions, changes in market interest rates are only reflected in the value of the investment portfolio.

Interest rate risk is measured through a sensitivity analysis, by observing the change in the value of investments in bonds if interest rates rise by one percentage point. The interest-rate sensitive bond portfolio includes government and corporate bonds, and bond and convertible mutual funds with a weight of 1. The analysed investments do not include held-to-maturity bonds, deposits or loans granted as these are measured at amortised cost and are, therefore, not sensitive to changes in market interest rates.

**Results of the sensitivity analysis**

| (EUR) | 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|
| | +100 bp | | | -100 bp | | |
| Type of security | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| Government bonds | 118,753,946 | 114,948,893 | -3,805,053 | 118,753,946 | 122,835,989 | 4,082,042 |
| Corporate bonds | 98,080,587 | 95,662,599 | -2,417,988 | 98,080,587 | 100,730,911 | 2,650,324 |
| Bond and convertible mutual funds | 2,377,213 | 2,308,988 | -68,225 | 2,377,213 | 2,451,021 | 73,809 |
| **Total** | **219,211,746** | **212,920,480** | **-6,291,266** | **219,211,746** | **226,017,921** | **6,806,175** |
| Effect on equity | -6,154,728 | | | 6,806,175 | | |
| Effect on the income statement | -136,538 | | | 149,652 | | |

| (EUR) | 31/12/2017 | | | | | |
|---|---|---|---|---|---|---|
| | +100 bp | | | -100 bp | | |
| Type of security | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| Government bonds | 114,194,924 | 110,921,251 | -3,273,674 | 114,194,924 | 117,706,635 | 3,511,710 |
| Corporate bonds | 108,409,151 | 105,413,387 | -2,995,765 | 108,409,151 | 111,643,308 | 3,234,157 |
| Bond mutual funds | 2,564,660 | 2,492,429 | -72,231 | 2,564,660 | 2,642,381 | 77,720 |
| **Total** | **225,168,736** | **218,827,066** | **-6,341,670** | **225,168,736** | **231,992,324** | **6,823,587** |
| Effect on equity | -6,341,670 | | | 6,823,587 | | |
| Effect on the income statement | 0 | | | 0 | | |

The sensitivity analysis showed that in case of an increase in interest rates, the value of bonds included in the analysis would decrease by EUR 6.3 million (31/12/2017: EUR 6.3 million) or 2.9% (31/12/2017: 2.8%).

Based on the results of the sensitivity analysis, the interest rate risk did not change significantly compared to 2017.

#### 23.5.3.2.2 Equity risk

The Company measures equity risk through a stress test scenario assuming a 10- or 20-percent drop in equity prices. Equity risk affects equities, equity mutual funds and mixed mutual funds (in stress tests, we include half of the amount).

Investments in subsidiaries are excluded from stress tests as the Company assesses their value in accordance with the policy described in section 23.2.12 “Financial investments in subsidiaries and associates”. As at the year-end 2018, investments in subsidiaries totalled EUR 220.2 million (31/12/2017: EUR 193.4 million). Sava Re maintains and increases the value of its investments in subsidiaries through active management.

As at 31 December 2018, equity securities accounted for 3.6% of the investment portfolio, 0.4 p.p. less than in 2017.

**Sensitivity assessment of investments to equity risk**

| (EUR) | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| Value decrease | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| of -10% | 9,446,668 | 8,502,001 | -944,667 | 10,696,948 | 9,627,253 | -1,069,695 |
| of -20% | 9,446,668 | 7,557,334 | -1,889,334 | 10,696,948 | 8,557,558 | -2,139,390 |

To assess the sensitivity of investments to equity risk, we assume a 10% drop in the value of all equity securities, which would have resulted in a decrease in the value of investments of EUR 0.9 million (31/12/2017: EUR 1.1 million).

Unlike the bond portfolio, which moves inversely to interest rates, the value of equities and mutual funds changes linearly with stock prices. Thus, a 20% fall in equity prices would reduce the value of investments by EUR 1.9 million (31/12/2017: EUR 2.1 million).

The exposure to equity risk declined slightly in 2018.

#### 23.5.3.2.3 Alternative investment risk

As at 31 December 2018, the Company had EUR 10.9 million of alternative investments, comprising infrastructure funds and investment property. The alternative investment risk was assessed by shocking their values as required by Solvency II in the calculation of capital requirements. For infrastructure funds and investment property, we assumed a fall in their values of 49% (because we did not use the look-through approach) and 25% respectively, resulting in an absolute decrease of EUR 3.2 million in total.

| (EUR) | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | Value | Post-stress value | Change in value | Value | Post-stress value | Change in value |
| Infrastructure funds | 1,860,608 | 948,910 | -911,698 | 0 | 0 | 0 |
| Investment property | 9,033,564 | 6,775,173 | -2,258,391 | 8,230,878 | 6,173,158 | -2,057,719 |
| - directly owned | 8,285,733 | 6,214,300 | -2,071,433 | 8,230,878 | 6,173,158 | -2,057,719 |
| - owned through an associate | 747,831 | 560,873 | -186,958 | 0 | 0 | 0 |
| **Total** | **10,894,172** | **7,724,083** | **-3,170,089** | **8,230,878** | **6,173,158** | **-2,057,719** |

#### 23.5.3.2.4 Currency risk

Currency risk is the risk that changes in exchange rates will decrease foreign-denominated assets or increase liabilities denominated in foreign currencies.

As at 31 December 2018, the Company's liabilities denominated in foreign currencies accounted for 16.4% of its total liabilities. As the proportion of international business is rising (and so is the number of different currencies), Sava Re has put in place a currency matching policy. It took measures for the matching of assets and liabilities in foreign currencies aimed at decreasing currency risk.

Under the adopted currency matching policy, matching activities in respect of any accounting currency[149] are to start as soon as the currency mismatch with that currency exceeds EUR 2 million. If the financial market allows for the purchase and settlement of investments in the accounting currency, the Company starts investing in the accounting currency of the liability. If the financial market does not allow for the purchase and settlement of investments in the accounting currency and the transaction currency[150] is a global currency, the currency mismatch may be reduced through placements in the transaction currency. This requires a correlation between the accounting currency and the transaction currency of at least 90%. The correlation is the average of a one-, two-, three-, four- and five-year correlation between the accounting currency and the transaction currency calculated at the end of each quarter of the current year.

[149] The accounting currency is the local currency used in the accounting documentation. Reinsurance contracts may be accounted for in various accounting currencies. Generally, this is the currency of liabilities and receivables due from cedants, and hence also the reinsurer.

[150] The transaction currency is the currency in which reinsurance contract transactions are processed.

### Measurement of currency risk

The Company uses a stochastic analysis to measure currency risk and to predict the average surplus funds as well as the 5th percentile of surplus funds after one year from the risk valuation date.

Based on exchange rates to which Sava Re has been exposed to over the past five years and the corresponding euro equivalent surpluses of assets and liabilities as at 31 December 2018, we made a stochastic analysis that projected that, assuming an unaltered currency structure, after one year the average surplus of assets over liabilities would be EUR 0.07 million (31/12/2017: EUR 0.04 million), but with a 5-percent probability that the deficit of assets would exceed EUR 1.6 million (31/12/2017: EUR 0.3 million).

Currency mismatch of assets and liabilities is monitored by individual accounting currency. The following table includes the currency mismatch for the five currencies that account for the largest share of liabilities.

**Currency (mis)match as at 31 December 2018 (all amounts translated to euro)**

| Currency 2018 | Assets | Liabilities | Mismatch | Matched liabilities (%) |
|---|---|---|---|---|
| **Euro (EUR)** | **505,758,074** | **506,663,752** | | |
| **Foreign currencies** | **100,572,979** | **99,667,304** | **19,693,990** | **100.9** |
| US dollar (USD) | 42,333,181 | 32,803,314 | 9,529,867 | 129.1 |
| Korean won (KRW) | 9,229,219 | 9,085,947 | 143,271 | 101.6 |
| Indian rupee (INR) | 6,725,371 | 6,098,675 | 626,695 | 110.3 |
| Taka (BDT) | 2,117,973 | 6,415,488 | 4,297,515 | 33.0 |
| Chinese yuan (CNY) | 6,890,205 | 7,696,453 | 806,248 | 89.5 |
| Other | 33,277,032 | 37,567,425 | 4,290,394 | 88.6 |
| **Total** | **606,331,055** | **606,331,055** | | |
| Currency-matched liabilities (%) | | | 96.8% | |

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**Currency (mis)match as at 31 December 2017 (all amounts translated to euro)**

| Currency 2017 | Assets | Liabilities | Mismatch | Matched liabilities (%) |
|---|---|---|---|---|
| **Euro (EUR)** | **480,204,998** | **478,013,928** | | |
| **Foreign currencies** | **100,681,182** | **102,872,252** | **20,178,121** | **97.9** |
| US dollar (USD) | 40,244,329 | 33,645,619 | 6,598,709 | 119.6 |
| Korean won (KRW) | 13,659,418 | 12,268,776 | 1,390,642 | 111.3 |
| Chinese yuan (CNY) | 8,680,101 | 8,296,593 | 383,508 | 104.6 |
| Indian rupee (INR) | 7,250,186 | 6,629,520 | 620,666 | 109.4 |
| Taka (BDT) | 2,100,842 | 6,286,135 | 4,185,294 | 33.4 |
| Other | 28,746,307 | 35,745,609 | 6,999,302 | 80.4 |
| **Total** | **580,886,180** | **580,886,180** | | |
| Currency-matched liabilities (%) | | | 96.5% | |

**Transaction currency (mis)match as at 31 December 2018 (all amounts translated to euro)**

| Currency 2018 | Assets | Liabilities | Mismatch | Matched liabilities (%) |
|---|---|---|---|---|
| **Euro (EUR)** | **505,978,443** | **507,934,480** | | |
| **Foreign currencies** | **100,352,612** | **98,396,576** | **7,516,117** | **102.0** |
| US dollar (USD) | 45,360,745 | 42,471,025 | 2,889,720 | 106.8 |
| Korean won (KRW) | 9,229,219 | 9,085,947 | 143,271 | 101.6 |
| Chinese yuan (CNY) | 6,890,205 | 7,696,453 | 806,248 | 89.5 |
| Indian rupee (INR) | 8,025,495 | 7,818,596 | 206,899 | 102.6 |
| Russian rouble (RUB) | 4,965,997 | 3,469,810 | 1,496,186 | 143.1 |
| Other | 25,880,952 | 27,854,744 | 1,973,792 | 92.9 |
| **Total** | **606,331,055** | **606,331,055** | | |
| Currency-matched liabilities (%) | | | 98.8% | |

**Transaction currency (mis)match as at 31 December 2017 (all amounts translated to euro)**

| Currency 2017 | Assets | Liabilities | Mismatch | Matched liabilities (%) |
|---|---|---|---|---|
| **Euro (EUR)** | **480,490,171** | **479,884,843** | | |
| **Foreign currencies** | **100,396,009** | **101,001,336** | **6,685,636** | **99.4** |
| US dollar (USD) | 43,252,126 | 43,255,862 | 3,736 | 100.0 |
| Korean won (KRW) | 13,659,418 | 12,268,776 | 1,390,642 | 111.3 |
| Chinese yuan (CNY) | 8,680,101 | 8,296,593 | 383,508 | 104.6 |
| Indian rupee (INR) | 8,026,369 | 7,931,790 | 94,579 | 101.2 |
| Russian rouble (RUB) | 10,381,528 | 9,210,102 | 1,171,426 | 112.7 |
| Other | 16,396,467 | 20,038,213 | 3,641,746 | 81.8 |
| **Total** | **580,886,180** | **580,886,180** | | |
| Currency-matched liabilities (%) | | | 98.8% | |

The Company has set itself a target of matching assets and liabilities at least 90%. In 2018 assets and liabilities were matched 96.8% (2017: 96.5%), which demonstrates the high quality of currency risk management.

In the management of currency risk (ALM aspect), the Company managed to directly match all substantially liquid currencies. Other currencies were matched based on their correlation with the euro or the US dollar. Since many accounting currencies are at least 90% correlated to the US dollar, the surplus of assets over liabilities in US dollars has been reduced to EUR 2.9 million (from EUR 9.5 million). This would further increase the currency matching percentage to 98.8% (2017: 98.8%).

### List of currencies matched based on the transaction currency

| Transaction currency | Accounting currency |
|---|---|
| Euro (EUR) | Bulgarian lev |
| | Convertible mark (BAM), BiH |
| | West African CFA franc (XOF) |
| | Danish krone (DKK) |
| | Central African CFA franc (XAF) |
| | EUR |
| U.S. dollar (USD) | Dirham (AED) |
| | Netherlands Antillean guilder (ANG) |
| | Barbados dollar (BBD) |
| | Bangladeshi taka (BDT) |
| | Bahamian dollar (BSD) |
| | U.S. dollar (USD) |
| | Dominican peso (DOP) |
| | Guatemalan quetzal (GTQ) |
| | Hong Kong dollar (HKD) |
| | Kuwaiti dinar (KWD) |
| | Lao kip (LAK) |
| | Sri Lankan rupee (LKR) |
| | Maldivian rufiyaa (MVR) |
| | Omani rial (OMR) |
| | Qatari riyal (QAR) |
| | Saudi riyal (SAR) |
| | East Caribbean dollar (XCD) |
| | Trinidad and Tobago dollar(TTD) |
| | Vietnamese dong (VND) |
| Indian rupee (INR) | Bhutanese ngultrum (BTN) |
| | Nepalese rupee (NPR) |
| | Indian rupee (INR) |

### Effect of exchange differences on the income statement

A currency mismatch also affects profit or loss through accounting for exchange rate differences due to the impact of exchange rate changes on various statement of financial position items.

When assets and liabilities are 100% matched in terms of foreign currencies, changes in foreign exchange rates have no impact on profit or loss. This is because any change in the value of assets denominated in a foreign currency as a result of a change in the exchange rate is offset by the change in the value of liabilities denominated in that foreign currency. As Sava Re's assets and liabilities are not 100% currency matched, changes in exchange rates do affect profit or loss. The following table shows the impact of exchange differences.

### Effect of exchange differences on the income statement

| Statement of financial position item | Exchange differences | |
|---|---|---|
| **Euro (EUR)** | **31/12/2018** | **31/12/2017** |
| Investments | -96,521 | -5,483,541 |
| Technical provisions and deferred commissions | 239,949 | 6,427,290 |
| Receivables and liabilities | 41,886 | -1,739,316 |
| **Total effect on the income statement** | **185,314** | **-795,566** |

We believe that currency risk did not change significantly in 2018 compared to 2017, while the impacts of changes in exchange rates were significantly smaller mainly due to their smaller fluctuation. In 2018 the Company continued active currency matching of assets and liabilities both directly based on accounting currencies and indirectly based on transaction currencies.

## 23.5.3.3 Liquidity risk

Liquidity risk is the risk that because of unexpected or unexpectedly high obligations, the Company will suffer a loss when ensuring liquid assets.

The Company minimises liquidity risk through ensuring funds in the amount of the estimated liquidity requirement. This comprises estimated ordinary current liquidity needs and liquidity reserves, which are ensured through the allocation of funds in money market instruments and through setting minimum percentages of portfolios that must be invested in highly liquid assets readily available to provide liquidity in case of emergency needs.

The normal current liquidity assessment is made based on the projected cash flow analysis in the period of up to one year included in the monthly and weekly plans that take into account the planned investment maturity dynamics as well as other inflows and outflows from operating activities. To this end, the Company uses historical data from previous monthly and weekly liquidity plans and projections regarding future operations. The liquidity reserve is calculated on the basis of an assessment of the maximum weekly outflows based on historical data.

In accordance with its liquidity risk management policy, the Company oversees the liquidity quality of its debt securities classified in line with the ECB methodology. The investment portfolio must include as a minimum 15% of securities of the L1A liquidity class of highly-liquid assets. As at 31 December 2018, L1A assets represented 25% of the investment portfolio (31/12/2017: 28.2%), which points to its high liquidity.

Exposure to liquidity risk is also measured by maturity-matching of assets and liabilities. The following table shows the value of financial investments by year based on undiscounted cash flows, while the value of technical provisions is shown by year and expected maturity based on triangular development.

### Maturity profile of financial assets and liabilities

| (EUR) | Carrying amount as at 31/12/2018 | Callable | Up to 1 year | From 1 to 5 years | Over 5 years | No maturity | Total 31/12/2018 |
|---|---|---|---|---|---|---|---|
| **Financial investments** | **244,291,434** | **0** | **59,595,548** | **126,529,405** | **53,495,382** | **13,684,488** | **253,304,823** |
| - at fair value through profit or loss | 3,956,895 | 0 | 178,875 | 2,266,500 | 2,301,214 | 439,304 | 5,185,894 |
| - held to maturity | 2,075,425 | 0 | 102,500 | 410,000 | 2,307,500 | 0 | 2,820,000 |
| - loans and deposits | 10,107,498 | 0 | 6,911,275 | 3,039,428 | 559,911 | 0 | 10,510,614 |
| - available-for-sale | 228,151,616 | 0 | 52,402,897 | 120,813,477 | 48,326,757 | 13,245,184 | 234,788,315 |
| Reinsurers' share of technical provisions | 21,437,221 | 0 | 10,183,242 | 6,612,470 | 4,641,509 | 0 | 21,437,221 |
| Cash and cash equivalents | 10,651,452 | 5,623,541 | 5,027,912 | 0 | 0 | 0 | 10,651,452 |
| **TOTAL ASSETS** | **276,380,105** | **5,623,541** | **74,806,701** | **133,141,875** | **58,136,890** | **13,684,488** | **285,393,495** |
| Technical provisions | 234,173,078 | 0 | 111,782,724 | 71,912,571 | 50,477,783 | 0 | 234,173,078 |
| **TOTAL LIABILITIES** | **234,173,078** | **0** | **111,782,724** | **71,912,571** | **50,477,783** | **0** | **234,173,078** |
| **Difference** | **42,207,027** | **5,623,541** | **-36,976,023** | **61,229,303** | **7,659,107** | **13,684,488** | **51,220,417** |

| (EUR) | Carrying amount as at 31/12/2017 | Callable | Up to 1 year | From 1 to 5 years | Over 5 years | No maturity | Total 31/12/2017 |
|---|---|---|---|---|---|---|---|
| **Financial investments** | **250,781,685** | **0** | **50,259,319** | **142,313,870** | **46,636,862** | **13,261,608** | **252,471,660** |
| - at fair value through profit or loss | 409,573 | 0 | 0 | 0 | 0 | 409,573 | 409,573 |
| - held to maturity | 2,075,111 | 0 | 102,500 | 410,000 | 2,410,000 | 0 | 2,922,500 |
| - loans and deposits | 12,840,885 | 0 | 4,373,892 | 2,717,308 | 1,512,740 | 0 | 8,603,940 |
| - available-for-sale | 235,456,116 | 0 | 45,782,927 | 139,186,563 | 42,714,123 | 12,852,036 | 240,535,648 |
| Reinsurers' share of technical provisions | 20,073,571 | 0 | 8,072,407 | 5,947,618 | 6,053,545 | 0 | 20,073,571 |
| Cash and cash equivalents | 6,678,458 | 2,128,333 | 4,550,126 | | | 0 | 6,678,458 |
| **TOTAL ASSETS** | **277,533,715** | **2,128,333** | **62,881,852** | **148,261,488** | **52,690,408** | **13,261,608** | **279,223,689** |
| Technical provisions | 232,639,163 | 0 | 94,012,446 | 68,701,572 | 69,925,145 | 0 | 232,639,163 |
| **TOTAL LIABILITIES** | **232,639,163** | **0** | **94,012,446** | **68,701,572** | **69,925,145** | **0** | **232,639,163** |
| **Difference** | **44,894,551** | **2,128,333** | **-31,130,594** | **79,559,917** | **-17,234,738** | **13,261,608** | **46,584,525** |

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. Highly liquid assets are intended to provide liquidity to meet any extraordinary liquidity requirements and are available on an ongoing basis.

The Company has in its books 71.0 million (31/12/2017: EUR 72.7 million) of investments assessed as highly liquid by the ECB (first two categories under ECB methodology for assessing the liquidity of investments).

In terms of the Company's liquidity, it is also very important that gross technical provisions and reserves are covered by funds of the non-life insurance register.

The Company's liquidity also depends on the average maturity of assets and liabilities. The average maturity of bonds and deposits of the non-life insurance register was 3.03 years at year-end 2017 (31/12/2017: 3.01 years), while the expected maturity of liabilities was 4.1 years (31/12/2017: 4.1 years).

Based on the proportion of liquid assets and the level of asset and liability matching, we assess that liquidity risk is well managed.

### 23.5.3.4 Credit risk

Credit risk is the risk of default on the obligations of a securities issuer or other counterparty towards the Company.

Assets exposed to credit risk include financial investments (deposit investments, bonds, deposits with cedants, cash and cash equivalents, and loans granted), receivables due from reinsurers and other receivables.

**Exposure to credit risk**

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Type of asset | Amount | Amount |
| **Fixed-income investments** | **241,258,397** | **244,198,536** |
| Debt instruments | 224,331,635 | 231,687,731 |
| Deposits with cedants | 6,275,310 | 5,832,347 |
| Cash and cash equivalents | 10,651,452 | 6,678,458 |
| **Receivables due from reinsurers** | **25,812,956** | **22,947,154** |
| Reinsurers' share of technical provisions | 21,437,221 | 20,073,571 |
| Receivables for shares in claims payments | 4,375,735 | 2,873,583 |
| **Receivables, excluding receivables arising out of reinsurance business** | **83,454,566** | **85,728,812** |
| Receivables arising out of primary insurance business | 82,518,635 | 85,167,822 |
| Receivables arising out of co-insurance and reinsurance business (excluding receivables for shares in claims) | 466,544 | 329,343 |
| Current tax assets | 39,935 | 41,064 |
| Other receivables | 429,450 | 190,582 |
| **Total exposure** | **350,525,919** | **352,874,501** |

#### Credit risk due to issuer default

Credit risk for investments is estimated based on two factors:

- credit ratings used in determining credit risk for fixed-income investments[151] and cash assets[152];
- performance indicators for other investments.

Below we set out an estimation of credit risk for fixed-income investments (included are debt securities, bank deposits, cash and cash equivalents, deposits with cedants and loans granted).

[151] Included are bonds, corporate bonds, deposits, deposits with cedants and loans granted.

[152] This includes cash and demand deposits.

**Fixed-income investments by issuer credit rating**

| (EUR) | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Rated by S&P/Moody's | Amount | Composition | Amount | Composition |
| AAA/Aaa | 77,950,080 | 32.3% | 88,858,731 | 36.4% |
| AA/Aa | 39,938,848 | 16.6% | 37,636,383 | 15.4% |
| A/A | 60,026,889 | 24.9% | 64,854,168 | 26.6% |
| BBB/Baa | 39,284,693 | 16.3% | 27,552,436 | 11.3% |
| Less than BBB/Baa | 7,900,146 | 3.3% | 3,942,855 | 1.6% |
| Not rated | 16,157,741 | 6.7% | 21,353,963 | 8.7% |
| **Total** | **241,258,397** | **100.0%** | **244,198,536** | **100.0%** |

As regards management of credit risk, the objective of the Company is to have in its investment portfolio at least 40% of investments rated "A-" or better. As at 31 December 2018, investments rated A or better represented 73.7% of total investments exposed to credit risk (31/12/2017: 78.4%). The Company regularly monitors exposure to individual issuers and any changes in credit standing in order to be able to prepare for a timely response to any adverse developments in financial markets or increase in risk relating to any issuer.

Sava Re mitigates credit risk with other investments through a high degree of diversification and by investing in liquid securities.

The credit risk due to issuer default also includes concentration risk representing the risk of excessive concentration in a geographic area, economic sector or issuer.

The Company's investment portfolio is reasonably diversified in accordance with the Slovenian Insurance Act and the Company's internal rules in order to avoid large concentration of a certain type of investments, of counterparties or economic sectors or other potential forms of concentration.

### Diversification of financial investments by region

| (EUR) | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Region | Amount | Composition | Amount | Composition |
| Slovenia | 48,942,112 | 18.6% | 54,593,796 | 20.5% |
| EU Member States | 141,271,311 | 53.7% | 141,696,173 | 53.3% |
| Non-EU members | 9,131,951 | 3.5% | 9,176,812 | 3.5% |
| Russia and Asia | 16,076,965 | 6.1% | 16,384,509 | 6.2% |
| Africa and the Middle East | 2,249,205 | 0.9% | 2,134,198 | 0.8% |
| America and Australia | 45,557,075 | 17.3% | 41,705,533 | 15.7% |
| **Total** | **263,228,619** | **100.0%** | **265,691,021** | **100.0%** |

The largest exposure of the Company is to EU Member States (31/12/2018: 53.7%, 31/12/2017: 53.3%), with the exposure spread among 22 countries. This is followed by the exposure to Slovenian-based issuers (31/12/2018: 18.6%; 31/12/2017: 20.5%) and issuers based in the Americas and Australia (31/12/2018: 17.3%; 31/12/2018: 15.7%). The exposure to other regions remained more or less the same compared to year-end 2017.

The exposure to Slovenia decreased by 1.9 percentage points in 2018 due to securities maturing and due to the adopted limit system.

### Exposure to Slovenia by asset type

| (EUR) | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Type of investment | Amount | Composition | Amount | Composition |
| Deposits | 742,115 | 0.3% | 742,100 | 0.3% |
| Government bonds | 18,537,101 | 7.0% | 24,004,876 | 9.0% |
| Corporate bonds | 6,597,544 | 2.5% | 7,089,706 | 2.7% |
| Shares | 8,601,860 | 3.3% | 10,304,445 | 3.9% |
| Loans granted | 900,210 | 0.3% | 0 | 0.0% |
| Cash and cash equivalents | 5,277,548 | 2.0% | 4,221,792 | 1.6% |
| Investment property | 8,285,733 | 3.1% | 8,230,878 | 3.1% |
| **Sum total** | **48,942,112** | **18.6%** | **54,593,796** | **20.5%** |

### Diversification of financial investments by industry

| (EUR) | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| Industry | Amount | Composition | Amount | Composition |
| Banking | 46,861,912 | 17.8% | 51,972,379 | 19.6% |
| Government | 120,829,371 | 45.9% | 116,270,045 | 43.8% |
| Finance & insurance | 27,646,258 | 10.5% | 30,542,879 | 11.5% |
| Industry | 17,858,226 | 6.8% | 17,422,633 | 6.6% |
| Consumables | 17,975,879 | 6.8% | 19,516,081 | 7.3% |
| Utilities | 20,775,863 | 7.9% | 21,736,127 | 8.2% |
| Property | 8,862,613 | 3.4% | 8,230,878 | 3.1% |
| Infrastructure | 2,418,497 | 0.9% | 0 | 0.0% |
| **Total** | **263,228,619** | **100.0%** | **265,691,021** | **100.0%** |

* Data for the finance and insurance industry for 2017 differ from those published in the 2017 annual report, because investment property (EUR 38.8 million) is now included in the newly-added property industry.

The Company's largest exposure in terms of industry as at 31 December 2018 was to governments, albeit with a high degree of diversification by issuers.

As at 31 December 2018, exposure to the ten largest issuers was EUR 83.7 million, representing 31.8% of financial investments (31/12/2017: EUR 88.2 million; 33.2%). The largest single issuer of securities that Sava Re is exposed to is the United States. As at 31 December 2018, it totalled EUR 17.4 million or 6.6% of financial investments (31/12/2017: EUR 10.4 million; 4.0%). Compared to year-end 2017, the exposure to the Republic of Slovenia expressed in percentage terms decreased by 1.6 percentage points (31/12/2018: 6.3%; 31/12/2017: 6.6%). No other issuer exceeds the 2.5% of financial assets threshold.

Based on the above, we estimate that by reducing its exposure to Slovenia and additional diversification by issuer, region and industry, the Company managed its credit risk well in 2018, and reduced it compared to 2017.

### Counterparty default risk

The total exposure to retrocessionaires as at 31 December 2018 was EUR 25.8 million (31/12/2017: EUR 22.9 million). Of this, EUR 21.4 million (31/12/2017: EUR 20.1 million) relate to retroceded gross technical provisions (EUR 3.6 million to unearned premiums and EUR 17.8 million to provisions for outstanding claims) and EUR 4.4 million (31/12/2017: EUR 2.9 million) to receivables for reinsurers' shares in claims.

The total credit risk exposure of the Company arising from retrocessionaires represented 4.3% of total assets in 2018 (31/12/2017: 4.0%). Retrocession programmes are mostly placed with first-class reinsurers with an appropriate credit rating (at least A– according to Standard & Poor's for long-term business, and at least BBB+ for short-term business). We consider this risk as low, particularly as the investment portfolio is adequately diversified. See details in the following table.

#### Receivables due from reinsurers by reinsurer credit rating

| (EUR) | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| **Rated by S&P / A.M. Best** | **Amount** | **Composition** | **Amount** | **Composition** |
| AAA/A++ | 278,948 | 1.1% | 1,050,918 | 5.2% |
| AA/A+ | 7,791,707 | 30.2% | 6,547,204 | 38.1% |
| A/(A or A-) | 13,124,406 | 50.8% | 10,005,802 | 40.6% |
| BBB / (B++ or B+) | 1,412,595 | 5.5% | 971,923 | 2.6% |
| Less than BBB / less than B+ | 758,193 | 2.9% | 664,632 | 2.9% |
| Not rated | 2,447,106 | 9.5% | 3,706,674 | 10.6% |
| **Total** | **25,812,955** | **100.0%** | **22,947,154** | **100.0%** |

The tables below show the receivables ageing analysis, including the above-mentioned receivables for reinsurers' shares in claims.

#### Receivables ageing analysis

| (EUR) 31/12/2018 | Not past due | Past due up to 180 days | Past due more than 180 days | Total |
|---|---|---|---|---|
| Receivables arising out of primary insurance business | 68,495,754 | 8,163,247 | 5,859,634 | 82,518,635 |
| Receivables for reinsurers' shares in claims | 3,541,151 | 482,112 | 352,473 | 4,375,735 |
| Receivables for commission | 329,924 | 136,620 | 0 | 466,544 |
| **Receivables arising out of reinsurance and co-insurance business** | **72,366,829** | **8,781,979** | **6,212,107** | **87,360,914** |
| Short-term receivables arising out of financing | 13,257 | 2,180 | 24,499 | 39,936 |
| Other receivables | 419,404 | 6,265 | 3,780 | 429,449 |
| **Other receivables** | **432,661** | **8,445** | **28,279** | **469,385** |
| **Total** | **72,799,489** | **8,790,423** | **6,240,386** | **87,830,299** |

| (EUR) 31/12/2017 | Not past due | Past due up to 180 days | Past due more than 180 days | Total |
|---|---|---|---|---|
| Receivables arising out of primary insurance business | 70,333,520 | 9,733,178 | 5,101,124 | 85,167,822 |
| Receivables for reinsurers' shares in claims | 2,068,584 | 316,745 | 488,254 | 2,873,583 |
| Receivables for commission | 312,676 | 16,666 | 0 | 329,342 |
| **Receivables arising out of reinsurance and co-insurance business** | **72,714,780** | **10,066,589** | **5,589,378** | **88,370,748** |
| Short-term receivables arising out of financing | 18,001 | 1,736 | 21,327 | 41,064 |
| Other receivables | 174,792 | 8,417 | 7,373 | 190,583 |
| **Other receivables** | **192,793** | **10,153** | **28,700** | **231,647** |
| **Total** | **72,907,573** | **10,076,742** | **5,618,078** | **88,602,395** |

The Company assessed its receivables for impairment. Allowances were established for receivables that needed to be impaired. Receivables are discussed in greater detail in note 8.

## 23.5.4 Operational risks

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

Operational risks are not among the most important risks of Sava Re. Nevertheless, some of them are quite important, such as:

- risks associated with the information and communications system,
- risk associated with supervision and reporting,
- risk of loss of key, expert and high-potential employees,
- risk of incorrect data input and inadequate documentation,
- compliance risk (laws and regulations),
- risk of theft and fraud,
- risks associated with outsourcing.

We estimate that in 2018, the Company's exposure to operational risk remained on the 2017 level.

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

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. With such regular assessments, it obtains an insight into the level of its exposure to operational risks.

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

The Company has in place various processes that ensure that it can properly identify, measure, monitor, manage, control and report operational risks, thus ensuring their effective management.

The Company's operational risk measures are aligned with those of the Group, as set out in section 17.6.4. "Operational risk".

## 23.5.5 Strategic risks

Strategic risk includes 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 and market developments. Such adverse events could impact the Company's income and capital adequacy.

The Company is exposed to a variety of internal and external strategic risks. Its key strategic risks in 2018 primarily include:

- the risk of an inadequate development strategy,
- risks associated with strategic investments,
- political risk,
- project risk,
- risk of market and economic conditions,
- reputation risk and
- regulatory risk.

We estimate that the Group's exposure to strategic risks in 2018 remained at a similar level as in 2017.

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, key strategic risks are evaluated using qualitative analysis of various scenarios. Based on both analyses combined, an overview is obtained of the extent and change in the exposure to this type of risk.

The Company manages strategic risks well and has no material exposure to concentration risk. We estimate that strategic risks in 2018 remained at the same level as in 2017.

The Company has in place various processes that ensure that it can properly identify, measure, monitor, manage, control and report strategic risks, thus ensuring their effective management.

The Company's strategic risk measures are aligned with those of the Group, as set out in section 17.7.7. "Strategic risk".

# 23.6 Notes to the financial statements – statement of financial position

## 1) Intangible assets

**Movement in cost and accumulated amortisation/impairment losses of intangible assets**

| (EUR) | Software | Other intangible assets | Total |
|---|---|---|---|
| **COST** | | | |
| Balance as at 01/01/2018 | 1,627,512 | 30,643 | 1,658,155 |
| Additions | 330,796 | 3,276 | 334,072 |
| Disposals | -4,342 | 0 | -4,342 |
| Balance as at 31/12/2018 | 1,953,966 | 33,919 | 1,987,885 |
| **ACCUMULATED AMORTISATION** | | | |
| Balance as at 01/01/2018 | 851,144 | 0 | 851,144 |
| Additions | 246,019 | 0 | 246,019 |
| Disposals | -2,002 | 0 | -2,002 |
| Balance as at 31/12/2018 | 1,095,161 | 0 | 1,095,161 |
| **Carrying amount as at 01/01/2018** | **776,368** | **30,643** | **807,011** |
| **Carrying amount as at 31/12/2018** | **858,805** | **33,919** | **892,724** |

| (EUR) | Software | Other intangible assets | Total |
|---|---|---|---|
| **COST** | | | |
| Balance as at 01/01/2017 | 1,431,299 | 39,685 | 1,470,984 |
| Additions | 196,213 | 0 | 196,213 |
| Disposals | 0 | -9,042 | -9,042 |
| Balance as at 31/12/2017 | 1,627,512 | 30,643 | 1,658,155 |
| **ACCUMULATED AMORTISATION** | | | |
| Balance as at 01/01/2017 | 638,417 | 0 | 638,417 |
| Additions | 212,727 | 0 | 212,727 |
| Balance as at 31/12/2017 | 851,144 | 0 | 851,144 |
| **Carrying amount as at 01/01/2017** | **792,883** | **39,685** | **832,567** |
| **Carrying amount as at 31/12/2017** | **776,368** | **30,643** | **807,011** |

## 2) Property, plant and equipment

**Movement in cost and accumulated depreciation/impairment losses of property, plant and equipment assets**

| (EUR) | Land | Buildings | Equipment | Other property, plant and equipment | Total |
|---|---|---|---|---|---|
| **COST** | | | | | |
| Balance as at 01/01/2018 | 150,833 | 2,322,223 | 1,666,228 | 90,667 | 4,229,951 |
| Additions | 0 | 39,546 | 356,930 | 122 | 396,598 |
| Disposals | 0 | 0 | -281,150 | 0 | -281,150 |
| Reallocations | 5,811 | 101,391 | 0 | -6,376 | 100,826 |
| Balance as at 31/12/2018 | 156,645 | 2,463,160 | 1,742,008 | 84,413 | 4,446,226 |
| **ACCUMULATED DEPRECIATION** | | | | | |
| Balance as at 01/01/2018 | 0 | 643,037 | 1,051,937 | 49,333 | 1,744,306 |
| Additions | 0 | 31,486 | 202,237 | 1,293 | 235,017 |
| Disposals | 0 | 0 | -213,478 | 0 | -213,478 |
| Reallocations | 0 | 28,177 | 0 | -2,336 | 25,841 |
| Balance as at 31/12/2018 | 0 | 702,698 | 1,040,696 | 48,290 | 1,791,685 |
| **Carrying amount as at 01/01/2018** | **150,833** | **1,679,187** | **614,291** | **41,334** | **2,485,645** |
| **Carrying amount as at 31/12/2018** | **156,644** | **1,760,461** | **701,312** | **36,123** | **2,654,540** |

| (EUR) | Land | Buildings | Equipment | Other property, plant and equipment | Total |
|---|---|---|---|---|---|
| **COST** | | | | | |
| Balance as at 01/01/2017 | 149,876 | 7,591,448 | 1,559,190 | 92,256 | 9,392,770 |
| Additions | 0 | 0 | 289,914 | 0 | 289,914 |
| Disposals | 0 | 0 | -182,875 | -1,589 | -184,464 |
| Reallocations | 957 | -5,269,225 | 0 | 0 | -5,268,268 |
| Balance as at 31/12/2017 | 150,833 | 2,322,223 | 1,666,228 | 90,667 | 4,229,951 |
| **ACCUMULATED DEPRECIATION** | | | | | |
| Balance as at 01/01/2017 | 0 | 612,593 | 980,000 | 46,975 | 1,639,568 |
| Additions | 0 | 30,444 | 176,266 | 2,625 | 209,335 |
| Disposals | 0 | 0 | -104,329 | -268 | -104,597 |
| **Balance as at 31/12/2017** | **0** | **643,037** | **1,051,937** | **49,333** | **1,744,306** |
| **Carrying amount as at 01/01/2017** | **149,876** | **6,978,855** | **579,190** | **45,281** | **7,753,202** |
| Carrying amount as at 31/12/2017 | 150,833 | 1,679,187 | 614,291 | 41,334 | 2,485,645 |

Property, plant and equipment assets were not acquired under finance leases and were not encumbered with third party rights.

The fair values of land and buildings are disclosed in note 22 "Fair values of assets and liabilities".

### 3) Deferred tax assets and liabilities

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Deferred tax assets | 1,867,370 | 1,238,826 |

| (EUR) | 01/01/2018 | Recognised in IS | Recognised in SCI | 31/12/2018 |
|---|---|---|---|---|
| Long-term financial investments | 1,023,503 | 369,355 | 259,757 | 1,652,614 |
| Short-term operating receivables | 257,788 | -3,301 | 0 | 254,487 |
| Provisions for jubilee benefits and severance pay (retirement) | 33,577 | 5,265 | -2,346 | 36,496 |
| Other | -76,041 | 0 | -186 | -76,227 |
| **Total** | **1,238,826** | **371,319** | **257,224** | **1,867,370** |

| (EUR) | 01/01/2017 | Recognised in IS | Recognised in SCI | 31/12/2017 |
|---|---|---|---|---|
| Long-term financial investments | 1,195,582 | -167,573 | -4,506 | 1,023,503 |
| Short-term operating receivables | 222,455 | 35,333 | 0 | 257,788 |
| Provisions for jubilee benefits and severance pay (retirement) | 31,440 | 3,742 | -1,605 | 33,577 |
| Other | -76,041 | 0 | 0 | -76,041 |
| **Total** | **1,373,436** | **-128,499** | **-6,111** | **1,238,826** |

### 4) Investment property

Movement in cost and accumulated depreciation of investment property

| (EUR) | Land | Buildings | Equipment | Total |
|---|---|---|---|---|
| **COST** | | | | |
| Balance as at 01/01/2018 | 1,496,601 | 6,905,412 | 0 | 8,402,013 |
| Additions | 0 | 208,883 | 62,157 | 271,040 |
| Reallocations | -5,811 | -101,391 | 6,376 | -100,826 |
| Balance as at 31/12/2018 | 1,490,790 | 7,012,904 | 68,533 | 8,572,227 |
| **ACCUMULATED AMORTISATION** | | | | |
| Balance as at 01/01/2018 | 0 | 171,135 | 0 | 171,135 |
| Additions | 0 | 139,122 | 2,078 | 141,200 |
| Reallocations | 0 | -28,177 | 2,336 | -25,841 |
| Balance as at 31/12/2018 | 0 | 282,080 | 4,414 | 286,494 |
| **Carrying amount as at 01/01/2018** | **1,496,601** | **6,734,277** | **0** | **8,230,878** |
| **Carrying amount as at 31/12/2018** | **1,490,790** | **6,730,824** | **64,119** | **8,285,733** |

| (EUR) | Land | Buildings | Total |
|---|---|---|---|
| **COST** | | | |
| Balance as at 01/01/2017 | 5,810 | 3,200,431 | 3,206,241 |
| Reallocations | 1,490,790 | 3,704,982 | 5,195,772 |
| Balance as at 31/12/2017 | 1,496,601 | 6,905,412 | 8,402,013 |
| **ACCUMULATED AMORTISATION** | | | |
| Balance as at 01/01/2017 | 0 | 84,165 | 84,165 |
| Additions | 0 | 86,970 | 86,970 |
| Balance as at 31/12/2017 | 0 | 171,135 | 171,135 |
| **Carrying amount as at 01/01/2017** | **5,810** | **3,116,266** | **3,122,076** |
| **Carrying amount as at 31/12/2017** | **1,496,601** | **6,734,277** | **8,230,878** |

Investment property of the Company includes business premises in a commercial building at Tivolska Street 48, the building at Baragova Street 5 and parking areas at Dunajska Street 56, which are leased out under long-term contracts.

All investment property assets yield rent. In 2018, the Company realised income of EUR 692,712 from investment properties leased out, of which EUR 6,506 was paid by subsidiaries and EUR 686,207 by third parties. In 2017, the Company realised income of EUR 326,147 from investment properties leased out, of which EUR 11,152 was paid by associates and EUR 314,995 by third parties. Maintenance costs associated with investment property are either included in rent or charged to the lessees in a proportionate amount. These recovered costs amounted to EUR 112,718 in 2018 (2017: EUR 144,325).

The investment properties are unencumbered by any third-party rights.

The fair values of investment property are disclosed in note 22 “Fair values of assets and liabilities”.

### 5) Financial investments in subsidiaries and associates

Financial investments in subsidiaries and associates are recognised at cost in accordance with IAS 27 "Separate Financial Statements".

**Financial investments in Group companies**

| (EUR) | 01/01/2018 | | Acquisition/ recapitalisation | Impairment (-) | 31/12/2018 | |
|---|---|---|---|---|---|---|
| | Holding | Value | Value | Value | Holding | Value |
| Zavarovalnica Sava | 100.00% | 123,364,959 | 0 | 0 | 100.00% | 123,364,959 |
| Sava Neživotno Osiguranje (SRB) | 100.00% | 13,457,144 | 6,942,021 | 0 | 100.00% | 20,399,165 |
| Illyria | 100.00% | 10,318,445 | 0 | -2,224,445 | 100.00% | 8,094,000 |
| Sava Osiguruvanje (MKD) | 92.57% | 10,284,618 | 0 | -253,128 | 92.57% | 10,031,490 |
| Sava Osiguranje (MNE) | 100.00% | 15,373,019 | 0 | 0 | 100.00% | 15,373,019 |
| Illyria Life | 100.00% | 4,035,892 | 0 | 0 | 100.00% | 4,035,892 |
| Sava Životno Osiguranje (SRB) | 100.00% | 6,685,245 | 0 | -1,542,967 | 100.00% | 5,142,278 |
| Illyria Hospital | 100.00% | 1,800,317 | 0 | 0 | 100.00% | 1,800,317 |
| Sava Pokojninska | 100.00% | 8,089,939 | 0 | 0 | 100.00% | 8,089,939 |
| TBS Team 24 | 0.00% | 0 | 2,906,504 | 0 | 75.00% | 2,906,504 |
| Sava Penzisko Društvo | 0.00% | 0 | 19,714,494 | 0 | 100.00% | 19,714,494 |
| Sava Terra | 0.00% | 0 | 747,831 | 0 | 30.00% | 747,831 |
| **Total** | | **193,409,578** | **30,310,850** | **-4,020,539** | | **219,699,889** |

| (EUR) | 01/01/2017 | | Acquisition/ recapitalisation | Impairment (-) | 31/12/2017 | |
|---|---|---|---|---|---|---|
| | Holding | Value | Value | Value | Holding | Value |
| Zavarovalnica Sava | 99.74% | 122,312,446 | 1,052,512 | 0 | 100.00% | 123,364,959 |
| Sava Neživotno Osiguranje (SRB) | 100.00% | 13,457,144 | 0 | 0 | 100.00% | 13,457,144 |
| Illyria | 100.00% | 10,318,445 | 0 | 0 | 100.00% | 10,318,445 |
| Sava Osiguruvanje (MKD) | 92.44% | 10,278,898 | 5,721 | 0 | 92.57% | 10,284,618 |
| Sava Osiguranje (MNE) | 100.00% | 15,373,019 | 0 | 0 | 100.00% | 15,373,019 |
| Illyria Life | 100.00% | 4,035,892 | 0 | 0 | 100.00% | 4,035,892 |
| Sava Životno Osiguranje (SRB) | 100.00% | 5,974,281 | 710,963 | 0 | 100.00% | 6,685,245 |
| Illyria Hospital | 100.00% | 1,800,317 | 0 | 0 | 100.00% | 1,800,317 |
| Sava Pokojninska | 100.00% | 8,089,939 | 0 | 0 | 100.00% | 8,089,939 |
| **Total** | | **191,640,382** | **1,769,196** | **0** | | **193,409,578** |

**Financial investments in associates**

| (EUR) | 01/01/2018 | | Additions | | 31/12/2018 | | |
|---|---|---|---|---|---|---|---|
| | Holding | Value | Holding | Value | Holding | Value | Share of voting rights (%) |
| ZTSR | 0.00% | 0 | 50.00% | 125,000 | 50.00% | 125,000 | 50.00% |
| G2I | 0.00% | 0 | 17.50% | 394,197 | 17.50% | 394,197 | 25.00% |
| **Total** | | **0** | | **519,197** | | **519,197** | |

In 2018, the Company increased its investments in Group companies by EUR 30.3 million (2017: EUR 1.8 million).

It also reduced its investments in Group companies by EUR 4.0 million to account for impairment. The assumptions used in the valuation are presented in greater detail in section 17.7 "Notes to the consolidated financial statements – statement of financial position".

### 6) Financial investments

| (EUR) 31/12/2018 | Held-to-maturity | At fair value through P/L Non-derivative Designated to this category | Available-for-sale | Loans and receivables | Total |
|---|---|---|---|---|---|
| **Debt instruments** | **2,075,425** | **3,517,591** | **214,906,431** | **3,832,188** | **224,331,635** |
| Deposits and CDs | 0 | 1,589,488 | | 742,115 | 2,331,604 |
| Government bonds | 2,075,425 | 35,863 | 118,775,472 | 0 | 120,886,760 |
| Corporate bonds | 0 | 1,892,240 | 96,130,959 | 0 | 98,023,199 |
| Loans granted | 0 | 0 | 0 | 3,090,072 | 3,090,072 |
| **Equity instruments** | **0** | **439,304** | **11,384,576** | **0** | **11,823,880** |
| Shares | 0 | 411,709 | 8,309,244 | 0 | 8,720,953 |
| Mutual funds | 0 | 27,595 | 3,075,332 | 0 | 3,102,927 |
| **Infrastructure funds** | **0** | **0** | **1,860,608** | **0** | **1,860,608** |
| **Deposits with cedants** | **0** | **0** | **0** | **6,275,310** | **6,275,310** |
| **Total** | **2,075,425** | **3,956,895** | **228,151,616** | **10,107,498** | **244,291,434** |

| (EUR) 31.12.2017 | Held-to-maturity | At fair value through P/L Non-derivative Designated to this category | Available-for-sale | Loans and receivables | Total |
|---|---|---|---|---|---|
| **Debt instruments** | **2,075,111** | **0** | **222,604,081** | **7,008,538** | **231,687,731** |
| Deposits and CDs | 0 | 0 | 0 | 2,398,614 | 2,398,614 |
| Government bonds | 2,075,111 | 0 | 114,238,753 | 0 | 116,313,865 |
| Corporate bonds | 0 | 0 | 108,365,328 | 0 | 108,365,328 |
| Loans granted | 0 | 0 | 0 | 4,609,924 | 4,609,924 |
| **Equity instruments** | **0** | **409,573** | **12,852,036** | **0** | **13,261,609** |
| Shares | 0 | 409,573 | 9,989,654 | 0 | 10,399,227 |
| Mutual funds | 0 | 0 | 2,862,382 | 0 | 2,862,382 |
| **Deposits with cedants** | **0** | **0** | **0** | **5,832,347** | **5,832,347** |
| **Total** | **2,075,111** | **409,573** | **235,456,116** | **12,840,885** | **250,781,685** |

Sava Re held 0.9% of financial investments that constitute subordinated debt for the issuer (31/12/2017: 0.5%).

### Loans granted to Group companies

| (EUR) | Type of debt instrument | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| Sava Neživotno Osiguranje (SRB) | loan | 1,305,134 | 1,305,929 |
| Sava Osiguruvanje (MKD) | loan | 0 | 300,000 |
| Illyria Life | loan | 0 | 3,003,995 |
| Illyria | loan | 650,169 | 0 |
| Sava Terra | loan | 576,880 | 0 |
| **Total** | | **2,532,183** | **4,609,924** |

No securities have been pledged as security.

## 7) Reinsurers' share of technical provisions

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| From unearned premiums | 3,570,489 | 3,513,686 |
| From provisions for claims outstanding | 17,866,732 | 16,559,885 |
| **Total** | **21,437,221** | **20,073,571** |

The reinsures' share of unearned premiums mostly moved in line with retroceded premiums, and remained at a more or less similar level in 2018. The reinsurers' share of claims provisions depends on the movement of large incurred claims, covered by the reinsurance programme, and the schedule of their related claim payments. In 2018, retroceded claims provisions increased by 7.9%: due to loss events, new provisions were set aside for the motor liability excess of loss cover for the Group portfolio and the inwards property excess of loss cover (Jebi typhoon in Japan), which was partially offset by payments and release of retroceded provisions from the previous year set aside for larger non-life losses affecting both intra- and extra-Group portfolios.

## 8) Receivables

Receivables of the controlling company arising out of reinsurance contracts are not specially secured. Receivables have been tested for impairment.

### Receivables by type

| (EUR) | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Allowance | Receivables | Gross amount | Allowance | Receivables |
| Receivables due from policyholders | 82,158,702 | -396,032 | 81,762,670 | 85,661,458 | -493,636 | 85,167,822 |
| Other receivables arising out of primary insurance business | 755,965 | 0 | 755,965 | 0 | 0 | 0 |
| **Receivables arising out of primary insurance business** | **82,914,668** | **-396,032** | **82,518,635** | **85,661,458** | **-493,636** | **85,167,822** |
| Receivables for shares in claims payments | 4,550,739 | -175,004 | 4,375,735 | 3,048,587 | -175,004 | 2,873,583 |
| Receivables for commission | 466,544 | 0 | 466,544 | 329,343 | 0 | 329,343 |
| **Receivables arising out of reinsurance and co-insurance business** | **5,017,282** | **-175,004** | **4,842,279** | **3,377,930** | **-175,004** | **3,202,926** |
| **Current tax assets** | **0** | **0** | **0** | **0** | **0** | **0** |
| Receivables arising out of investments | 40,024 | -88 | 39,936 | 41,152 | -88 | 41,064 |
| Other short-term receivables | 844,030 | -414,581 | 429,449 | 605,163 | -414,581 | 190,582 |
| **Other receivables** | **884,054** | **-414,669** | **469,385** | **646,316** | **-414,669** | **231,647** |
| **Total** | **88,816,005** | **-985,705** | **87,830,299** | **89,685,704** | **-1,083,309** | **88,602,395** |

The table gives a receivables ageing analysis. Amounts are net of any allowances.

### Receivables ageing analysis

| (EUR) 31/12/2018 | Not past due | Past due up to 180 days | Past due more than 180 days | Total |
|---|---|---|---|---|
| Receivables due from policyholders | 68,037,014 | 7,977,157 | 5,748,499 | 81,762,670 |
| Other receivables arising out of primary insurance business | 458,741 | 186,089 | 111,135 | 755,965 |
| **Receivables arising out of primary insurance business** | **68,495,754** | **8,163,247** | **5,859,634** | **82,518,635** |
| Receivables for reinsurers' shares in claims | 3,541,151 | 482,112 | 352,473 | 4,375,735 |
| Receivables for commission | 329,924 | 136,620 | 0 | 466,544 |
| **Receivables arising out of reinsurance and co-insurance business** | **3,871,074** | **618,732** | **352,473** | **4,842,279** |
| Short-term receivables arising out of financing | 13,257 | 2,180 | 24,499 | 39,936 |
| Other short-term receivables | 419,404 | 6,265 | 3,780 | 429,449 |
| **Other receivables** | **432,661** | **8,445** | **28,279** | **469,385** |
| **Total** | **72.799.489** | **8.790.423** | **6.240.386** | **87.830.299** |

| (EUR) 31/12/2017 | Not past due | Past due up to 180 days | Past due more than 180 days | Total |
|---|---|---|---|---|
| Receivables due from policyholders | 70,333,520 | 9,733,178 | 5,101,123 | 85,167,822 |
| **Receivables arising out of primary insurance business** | **70,333,520** | **9,733,178** | **5,101,123** | **85,167,822** |
| Receivables for reinsurers' shares in claims | 2,068,584 | 316,745 | 488,255 | 2,873,583 |
| Receivables for commission | 312,676 | 16,666 | 0 | 329,343 |
| **Receivables arising out of reinsurance and co-insurance business** | **2,381,260** | **333,411** | **488,255** | **3,202,926** |
| Short-term receivables arising out of financing | 18,001 | 1,736 | 21,327 | 41,064 |
| Other short-term receivables | 174,793 | 8,417 | 7,373 | 190,582 |
| **Other receivables** | **192,795** | **10,153** | **28,700** | **231,647** |
| **Total** | **72,907,575** | **10,076,742** | **5,618,078** | **88,602,395** |

All receivables are current.

### Movement in allowance for receivables

| (EUR) | 01/01/2018 | Transfer | Additions | Reversals | Write-offs | Exchange differences | 31/12/2018 |
|---|---|---|---|---|---|---|---|
| Receivables due from policyholders | -493,637 | 0 | -19,709 | 124,890 | 209 | -7,786 | -396,032 |
| **Receivables arising out of primary insurance business** | **-493,637** | **0** | **-19,709** | **124,890** | **209** | **-7,786** | **-396,032** |
| Receivables for reinsurers' shares in claims | -175,004 | 0 | 0 | 0 | | 0 | -175,004 |
| **Receivables arising out of reinsurance and co-insurance business** | **-175,004** | **0** | **0** | **0** | **0** | **0** | **-175,004** |
| Short-term receivables arising out of financing | -88 | 0 | 0 | 0 | | 0 | -88 |
| Other short-term receivables | -414,581 | 0 | 0 | 0 | | 0 | -414,581 |
| **Other receivables** | **-414,669** | **0** | **0** | **0** | **0** | **0** | **-414,669** |
| **Total** | **-1,083,309** | **0** | **-19,709** | **124,890** | **209** | **-7,786** | **-985,705** |

| (EUR) | 01/01/2017 | Transfer | Additions | Reversals | Exchange differences | 31/12/2017 |
|---|---|---|---|---|---|---|
| Receivables due from policyholders | 0 | -427,794 | -134,467 | 48,506 | 20,119 | -493,637 |
| **Receivables arising out of primary insurance business** | **0** | **-427,794** | **-134,467** | **48,506** | **20,119** | **-493,637** |
| Receivables for premiums arising out of reinsurance assumed | -427,794 | 427,794 | 0 | 0 | 0 | 0 |
| Receivables for reinsurers' shares in claims | -75,004 | 0 | -100,000 | 0 | 0 | -175,004 |
| **Receivables arising out of reinsurance and co-insurance business** | **-502,798** | **427,794** | **-100,000** | **0** | **0** | **-175,004** |
| Short-term receivables arising out of financing | -88 | 0 | 0 | 0 | 0 | -88 |
| Other short-term receivables | -509,335 | 0 | 0 | 94,754 | 0 | -414,581 |
| **Other receivables** | **-509,423** | **0** | **0** | **94,754** | **0** | **-414,669** |
| **Total** | **-1,012,222** | **0** | **-234,467** | **143,260** | **20,119** | **-1,083,309** |

### 9) Deferred acquisition costs

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Deferred commission from inwards reinsurance in Slovenia and abroad | 7,821,932 | 7,778,499 |

This item comprises commissions invoiced but relating to the next financial year, which are deferred using the straight-line method, and estimated future final commissions for intra-Group reinsurance. All deferred acquisition costs are current. Deferred commissions of ceding Group companies increased by EUR 0.7 million in 2018, which is due to growth in business volume and with it in unearned premiums and deferred commissions. The deferred commissions relating to the extra-group portfolio decreased by EUR 0.7 million, moving in line with the decline in unearned premiums of the portfolio.

### 10) Other assets and other financial liabilities

Other assets mainly include prepaid licence fees and insurance premiums.

Other financial liabilities include short-term liabilities arising out of unpaid dividends of Sava Re for previous years.

### 11) Cash and cash equivalents

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Cash in bank accounts | 5,027,911 | 2,963,782 |
| Framework deposit or overnight deposits | 5,623,541 | 3,714,676 |
| **Total** | **10,651,452** | **6,678,458** |

Cash equivalents comprises demand deposits and deposits placed with an original maturity of up to three months.

### 12) Share capital

As at 31 December 2018, the Company's share capital was divided into 17,219,662 shares (the same as at 31/12/2017). All shares are ordinary registered shares of the same class. Their holders are entitled to participate in the Company's control and profits (dividends). Each share carries one vote in general meeting and entitles the bearer to a proportionate share of the dividend payout.

Shares are recorded in the Central Securities Clearing Corporation (KDD) under the POSR ticker symbol.

As at year-end 2018, the Company's shareholders' register listed 4,073 shareholders (31/12/2017: 4,061 shareholders). The Company's shares are listed in the prime market of the Ljubljana Stock Exchange.

### 13) Capital reserves

After successfully completing the recapitalisation in July 2013, the Company increased capital reserves by EUR 22.2 million. Expenses directly attributable to the initial public offering of EUR 1.0 million were deducted from the added amount. As at 31 December 2018 capital reserves totalled EUR 54.2 million.

### 14) Profit reserves

Reserves provided for by the articles of association totalled EUR 11.5 million, having reached the statutory prescribed amount already in 2006, while legal reserves totalled EUR 3.5 million in 2018 and were also not strengthened in the year.

**Profit reserves**

| (EUR) | 31/12/2018 | 31/12/2017 | Distributable/ non-distributable |
|---|---|---|---|
| Legal reserves and reserves provided for by the articles of association | 14,986,525 | 14,986,525 | non-distributable |
| Reserve for own shares | 24,938,709 | 24,938,709 | non-distributable |
| Catastrophe equalisation reserve | 10,000,000 | 10,000,000 | non-distributable |
| Other profit reserves | 134,499,629 | 113,565,880 | distributable |
| **Total** | **184,424,862** | **163,491,114** | |

Reserves provided for by the articles of association are used:

- to cover the net loss which cannot be covered (in full) out of retained earnings and other profit reserves (an instrument of additional protection of the Company's tied-up capital);
- to increase the share capital from the Company's own funds; and
- to regulate the Company's dividend policy.

In accordance with IFRSs, the catastrophe equalisation reserve is shown under profit reserves.

In line with the Slovenian Companies Act, the Company's management board or the supervisory board may, when approving the annual report, allocate a part of net profit to other profit reserves, however, up to half of net profit for the period. Based on a management board decision approved by the supervisory board, profit reserves were strengthened by EUR 20.9 million in 2018.

### 15) Own shares

As at 31 December 2018, the Company held 1,721,966 POSR shares (or 10% of all shares) worth EUR 24,938,709.

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### 16) Fair value reserve

The fair value reserve comprises the change in fair value of available-for-sale financial assets.

| (EUR) | 2018 | 2017 |
|---|---|---|
| **As at 1 January** | **3,804,764** | **3,785,553** |
| Change in fair value | -1,165,440 | 692,156 |
| Transfer from fair value reserve to the IS due to disposal | -201,700 | -668,437 |
| Deferred tax | 259,758 | -4,506 |
| **As at 31 December** | **2,697,381** | **3,804,764** |

The table shows the net change in the fair value reserve, which is an equity component.

### 17) Net profit or loss for the year and retained earnings

The weighted number of shares takes into account the annual average calculated on the basis of monthly averages of ordinary shares less the number of own shares. The weighted average number of shares outstanding in the financial period was 15,497,696. As the Company does not have potentially dilutive capital instruments, its net earnings per share equal diluted earnings per share.

**Basic/diluted earnings/loss per share**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Net profit or loss for the period | 41,867,497 | 32,974,192 |
| Weighted average number of shares outstanding | 15,497,696 | 15,497,696 |
| **Net earnings/loss per share** | **2.70** | **2.13** |

**Comprehensive income per share**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Comprehensive income for the period | 40,787,362 | 33,008,694 |
| Weighted average number of shares outstanding | 15,497,696 | 15,497,696 |
| **Comprehensive income per share** | **2.63** | **2.13** |

In line with the general meeting resolution dated 29 May 2018, the Company allocated EUR 12,398,157 to dividend pay-outs.

**Statement of distributable profit/loss**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Net profit or loss for the period | 41,867,497 | 32,974,192 |
| - profit or loss for the year under applicable standards | 41,867,497 | 32,974,192 |
| Retained earnings/losses | 10,101,174 | 6,012,234 |
| Additions to other reserves as per resolution of the management and the supervisory boards | 20,933,748 | 16,487,096 |
| **Distributable profit to be allocated by the general meeting** | **31,034,920** | **22,499,330** |
| - to shareholders | 0 | 12,398,157 |
| - to be carried forward to the next year | 0 | 10,101,174 |

### 18) Technical provisions

**Movements in gross technical provisions**

| (EUR) | 01/01/2018 | Additions | Uses | Exchange differences | 31/12/2018 |
|---|---|---|---|---|---|
| Gross unearned premiums | 47,602,457 | 43,937,662 | -44,466,232 | 73,618 | 47,147,505 |
| Gross provision for outstanding claims | 184,269,492 | 68,966,613 | -66,986,678 | -260,799 | 185,988,628 |
| Gross provision for bonuses, rebates and cancellations | 397,861 | 398,672 | -397,861 | 0 | 398,673 |
| Other gross technical provisions | 369,352 | 638,273 | -369,353 | 0 | 638,272 |
| **Total** | **232,639,163** | **113,941,220** | **-112,220,124** | **-187,180** | **234,173,078** |

| (EUR) | 01/01/2017 | Additions | Uses | Exchange differences | 31/12/2017 |
|---|---|---|---|---|---|
| Gross unearned premiums | 43,345,415 | 45,528,202 | -41,023,857 | -247,303 | 47,602,457 |
| Gross provision for outstanding claims | 182,167,780 | 73,160,487 | -64,884,414 | -6,174,360 | 184,269,492 |
| Gross provision for bonuses, rebates and cancellations | 483,539 | 397,861 | -483,539 | 0 | 397,861 |
| Other gross technical provisions | 210,745 | 369,353 | -210,745 | 0 | 369,352 |
| **Total** | **226,207,479** | **119,455,903** | **-106,602,555** | **-6,421,663** | **232,639,163** |

Technical provisions, the second largest item on the liabilities side, increased by 0.7%, or EUR 1.5 million, compared to 31 December 2017.

Gross unearned premiums decreased by 1.0%, or EUR 0.5 million: this is the net result of an increase due to an increased volume of intra-Group business and a decrease due to a decreased volume of extra-Group business.

Gross claims provisions increased by 0.9% in 2018, with the decrease within the intra-Group portfolio due to dismantling and payments for earlier underwriting years (from EUR 56.4 million to EUR 54.9 million) being offset with the increase within the extra-Group portfolio due to growth in business volume in previous years and larger losses in 2018 (from EUR 127.8 million to EUR 131.1 million). The largest was typhoon Jebi in Japan with EUR 6.7 million.

### Composition of the provision for outstanding claims

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Net provision for claims incurred but not reported (IBNR)** | **59,276,486** | **63,336,603** |
| - gross provision | 59,276,486 | 63,336,603 |
| **Net provision for claims reported but not settled** | **109,011,761** | **104,514,999** |
| - gross provision | 126,878,492 | 121,074,884 |
| - reinsurers' share | -17,866,732 | -16,559,885 |
| **Net provision for expected subrogation recoveries** | **-166,350** | **-141,995** |
| Gross provision for outstanding claims | -166,350 | -141,995 |
| **Net provision for outstanding claims** | **168,121,897** | **167,709,607** |
| **Total gross provision for outstanding claims** | **185,988,628** | **184,269,492** |
| **Total reinsurers' share (–)** | **-17,866,732** | **-16,559,885** |
| IBNR as % of gross provision for outstanding claims | 31.9% | 34.4% |
| IBNR as % of net provision for outstanding claims | 35.3% | 37.8% |

The movement in the gross and net claims provisions is aligned. The proportion of the IBNR provision remained at the prior-year level.

Provisions for bonuses, rebates and cancellations remained at approximately the same level.

Other technical provisions comprise the provision for unexpired risks. They are set aside when the expected combined ratio exceeds 100%. A larger increase in 2018 was observed within marine hull insurance, where the expected combined ratio was higher due to poorer results in previous years.

### Calculation of the gross provision for unexpired risks by class of insurance

| (EUR) | 31/12/2018 | | 31/12/2017 | |
|---|---|---|---|---|
| | Expected combined ratio | Provision for unexpired risks | Expected combined ratio | Provision for unexpired risks |
| Personal accident | 84.2% | 0 | 91.6% | 0 |
| Health | 122.9% | 93 | 128.3% | 1,099 |
| Land vehicles casco | 95.9% | 0 | 98.6% | 0 |
| Railway rolling stock | 167.3% | 18,471 | 41.8% | 0 |
| Aircraft hull | 104.3% | 4,125 | 121.9% | 9,168 |
| Ships hull | 139.7% | 565,258 | 127.3% | 320,611 |
| Goods in transit | 90.3% | 0 | 78.5% | 0 |
| Fire and natural forces | 88.5% | 0 | 90.8% | 0 |
| Other damage to property | 66.4% | 0 | 60.1% | 0 |
| Motor liability | 90.9% | 0 | 91.8% | 0 |
| Aircraft liability | 26.3% | 0 | 59.5% | 0 |
| Liability for ships | 67.7% | 0 | 73.1% | 0 |
| General liability | 57.0% | 0 | 52.8% | 0 |
| Credit | -13.1% | 0 | -2.0% | 0 |
| Suretyship | 169.1% | 50,325 | 180.3% | 38,475 |
| Miscellaneous financial loss | 63.8% | 0 | 73.9% | 0 |
| Legal expenses | 33.2% | 0 | 43.1% | 0 |
| Assistance | 13.7% | 0 | 38.1% | 0 |
| Life | 55.1% | 0 | 58.1% | 0 |
| Unit-linked life | 55.9% | 0 | 55.4% | 0 |
| **Total** | **86.1%** | **638,273** | **86.7%** | **369,353** |

## 19) Other provisions

Other provisions mainly comprise provisions for long-term employee benefits.

Provisions for severance pay upon retirement and jubilee benefits have been calculated in accordance with the requirements of the revised IAS 19. The Company does not defer the recognition of actuarial gains and losses (i.e. the corridor approach) for defined benefit plans. There is a separate presentation of changes in provisions for severance pay upon retirement arising from changes in actuarial assumptions that are recognised in comprehensive income.

### Change in other provisions

| (EUR) | Provision for severance pay upon retirement | Provision for jubilee benefits | Other provisions for costs | Total |
|---|---|---|---|---|
| **01/01/2018** | **293,921** | **56,958** | **370** | **351,250** |
| Interest costs | -1,119 | -238 | 0 | -1,357 |
| Cost of service | 37,265 | 7,925 | 0 | 45,190 |
| Past service cost (IS) | 18,777 | 4,800 | 0 | 23,577 |
| Payments | 0 | -9,197 | 0 | -9,197 |
| Impact of changes in actuarial assumptions (IS) | 0 | -2,793 | 0 | -2,793 |
| Impact of changes in actuarial assumptions (SFP) | -29,780 | | 0 | -29,780 |
| Other changes | 0 | 0 | -370 | -370 |
| **31/12/2018** | **319,065** | **57,456** | **0** | **376,521** |

| (EUR) | Provision for severance pay upon retirement | Provision for jubilee benefits | Other provisions for costs | Total |
|---|---|---|---|---|
| **01/01/2017** | **275,344** | **55,605** | **852** | **331,801** |
| Interest costs | -832 | -176 | 0 | -1,007 |
| Cost of service | 36,302 | 8,108 | 0 | 44,410 |
| Payments | 0 | -5,021 | 0 | -5,021 |
| Impact of changes in actuarial assumptions (IS) | 0 | -1,557 | 0 | -1,557 |
| Impact of changes in actuarial assumptions (SFP) | -16,893 | 0 | 0 | -16,893 |
| Other changes | 0 | 0 | -482 | -482 |
| **31/12/2017** | **293,921** | **56,958** | **370** | **351,250** |

We are also disclosing quantitative information on the sensitivity of the provisions for severance pay upon retirement and jubilee benefits to reasonably possible changes in each significant actuarial assumption. The (principal) assumptions used were: the term structure of the risk-free interest rate for the euro, published by EIOPA, without adjustments for volatility, real wage growth of 0.776% (2017: 1.020%), inflation and growth in jubilee benefits 1.5% (2017: 1.5%), staff turnover up to age 35 1.9% (2017: 1.8%), in the 35-to-45 age bracket 3.8% (2017: 3.6%), after age 45 2.6% (2017: 2.0%), mortality as per SLO 2007 (m/f) tables.

| Sensitivity | Provision for severance pay upon retirement | | Provision for jubilee benefits | |
|---|---|---|---|---|
| **(EUR)** | **31/12/2018** | **31/12/2017** | **31/12/2018** | **31/12/2017** |
| Decrease in discount rate of 1% | 39,805 | 40,427 | 4,929 | 4,872 |
| Increase in discount rate of 1% | -33,208 | -33,440 | -4,309 | -4,244 |
| Increase in real income growth of 0.5% | -18,085 | -18,287 | 0 | 0 |
| Increase in real income growth of 0.5% | 19,762 | 19,959 | 0 | 0 |
| Decrease in staff turnover of 10% | 10,203 | 8,002 | 1,418 | 1,207 |
| Increase in staff turnover of 10% | -9,749 | -7,701 | -1,369 | -1,170 |
| Decrease in mortality rate of 10% | 2,562 | 2,506 | 138 | 131 |
| Increase in mortality rate of 10% | -2,534 | -2,477 | -138 | -131 |

## 20) Liabilities from operating activities

Liabilities from operating activities dropped by 9.6%, or EUR 5.2 million. Liabilities from primary insurance business fell by EUR 7.1 million as the result of lower not past due claims payables due to a normal annual dynamics and commission payables (these declined due to lower premium receivables). On the other side, there are premium receivables. Current tax liabilities as at year-end 2018 increased by EUR 1.8 million from year-end 2017.

**Liabilities from operating activities**

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Liabilities to policyholders | 23,598,949 | 30,427,835 |
| Other liabilities from primary insurance business | 20,440,180 | 20,732,279 |
| **Liabilities from primary insurance business** | **44,039,129** | **51,160,114** |
| Liabilities for reinsurance premiums | 3,149,282 | 3,089,298 |
| Liabilities for shares in reinsurance claims | 112 | 710 |
| **Liabilities from reinsurance and co-insurance business** | **3,149,394** | **3,090,008** |
| **Current tax liabilities** | **1,997,157** | **154,799** |
| **Total** | **49,185,680** | **54,404,921** |

All liabilities are current.

The Company does not have liabilities arising out of co-insurance. The other liabilities due from co-insurance and reinsurance item comprises liabilities for reinsurance commission.

In accordance with IFRS 16 Leases, the Company will recognise lease liabilities of EUR 176,102 as at 1 January 2019.

As at 31 December 2018, the Company recognised current tax liabilities of EUR 1,997,157 (31/12/2017: EUR 154,799).

## 21) Other liabilities

Compared to 2017, other liabilities increased due to an increase in accrued expenses and deferred income of EUR 0.7 million.

Accrued expenses and deferred income include accruals/deferrals relating to retained deposits from international inwards reinsurance business, provisions for unexpended annual leave of employees, labour costs, commission of retroceded business and other accrued expenses and deferred income.

**Other liabilities**

| (EUR) | Maturity | |
|---|---|---|
| **2018** | **Up to 1 year** | **Total** |
| Short-term liabilities relating to securities | 4,633 | 4,633 |
| Short-term liabilities due to employees | 478,216 | 478,216 |
| Other short-term liabilities | 882,631 | 882,631 |
| Accruals and deferrals | 1,787,432 | 1,787,432 |
| **Total** | **3,152,911** | **3,152,911** |

| (EUR) | Maturity | |
|---|---|---|
| **2017** | **Up to 1 year** | **Total** |
| Short-term liabilities relating to securities | 4,000 | 4,000 |
| Short-term liabilities due to employees | 465,008 | 465,008 |
| Other short-term liabilities | 926,352 | 926,352 |
| Accruals and deferrals | 1,038,149 | 1,038,149 |
| **Total** | **2,433,509** | **2,433,509** |

Movements in accrued expenses and deferred income

| (EUR) | 01/01/2018 | Additions - reclassification | Uses | 31/12/2018 |
|---|---|---|---|---|
| **Short-term accrued expenses** | **852,118** | **3,511,394** | **-2,762,873** | **1,600,638** |
| - auditing costs | 35,929 | 65,880 | -35,929 | 65,880 |
| - accrued labour cost | 291,531 | 891,598 | -291,531 | 891,598 |
| - deferred reinsurance commission | 459,530 | 2,490,460 | -2,435,413 | 514,576 |
| - deferred interest income | 15,757 | 3,704 | 0 | 19,461 |
| - other short-term accrued expenses | 49,372 | 59,752 | 0 | 109,124 |
| **Other accrued expenses and deferred income** | **186,031** | **186,793** | **-186,031** | **186,793** |
| - provision for unexpended employee leave | 186,031 | 186,793 | -186,031 | 186,793 |
| **Total** | **1,038,149** | **3,698,187** | **-2,948,904** | **1,787,432** |

| (EUR) | 01/01/2017 | Additions - reclassification | Uses | 31/12/2017 |
|---|---|---|---|---|
| **Short-term accrued expenses** | **973,010** | **2,316,647** | **-2,437,541** | **852,118** |
| - auditing costs | 42,029 | 96,380 | -102,480 | 35,929 |
| - accrued labour cost | 365,207 | 291,531 | -365,207 | 291,531 |
| - deferred reinsurance commission | 412,879 | 1,830,314 | -1,783,665 | 459,530 |
| - deferred interest income | 11,369 | 4,388 | 0 | 15,757 |
| - other short-term accrued expenses | 141,526 | 94,034 | -186,189 | 49,372 |
| **Other accrued expenses and deferred income** | **221,180** | **186,031** | **-221,180** | **186,031** |
| - liabilities for retained deposits | 37,446 | 0 | -37,446 | 0 |
| - provision for unexpended employee leave | 183,734 | 186,031 | -183,734 | 186,031 |
| **Total** | **1,194,190** | **2,502,678** | **-2,658,721** | **1,038,149** |

## 22) Fair values of assets and liabilities

### 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.<br>Debt securities measured at the BVAL price if the CBBT price is unavailable.<br>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.<br>Debt securities measured at the BVAL price when the stock exchange price is unavailable.<br>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.<br>Shares for which there is no stock exchange price and that are measured using an internal model based on level 2 inputs. | Shares are measured using an internal model that does not consider level 2 inputs. |
| **Unquoted shares and participating interests** | | | |
| | | | Unquoted shares measured at cost. fair value for the purposes of disclosures calculated based on an internal model used for impairment testing mainly using unobserved inputs. |
| **Mutual funds** | | | |
| | Mutual funds measured at the quoted unit value on the measurement date. | | |
| **Alternative funds** | | | |
| | | | Fair value is determined on the basis of valuation of individual projects, where discounting of future cash flows is used. |
| **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. |

### Financial assets by level of the fair value hierarchy

| (EUR) 31/12/2018 | Carrying amount | Fair value | | | | Difference between FV and CA |
|---|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total fair value | |
| **Investments measured at fair value** | **232,108,511** | **108,231,449** | **118,603,834** | **5,273,227** | **232,108,511** | **0** |
| **At fair value through P/L** | **3,956,895** | **1,955,698** | **411,709** | **1,589,488** | **3,956,895** | **0** |
| Designated to this category | 3,956,895 | 1,955,698 | 411,709 | 1,589,488 | 3,956,895 | 0 |
| Debt instruments | 3,517,591 | 1,928,103 | 0 | 1,589,488 | 3,517,591 | 0 |
| Equity instruments | 439,304 | 27,595 | 411,709 | 0 | 439,304 | 0 |
| **Available-for-sale** | **228,151,616** | **106,275,751** | **118,192,125** | **3,683,739** | **228,151,616** | **0** |
| Debt instruments | 214,906,431 | 103,200,419 | 111,618,064 | 87,948 | 214,906,431 | 0 |
| Equity instruments | 11,384,576 | 3,075,332 | 6,574,061 | 1,735,183 | 11,384,576 | 0 |
| Infrastructure funds | 1,860,608 | 0 | 0 | 1,860,608 | 1,860,608 | 0 |
| **Investments not measured at fair value** | **12,182,923** | **0** | **3,621,553** | **9,365,383** | **12,986,936** | **804,013** |
| **Held-to-maturity assets** | **2,075,425** | **0** | **2,729,023** | **0** | **2,729,023** | **653,598** |
| Debt instruments | 2,075,425 | 0 | 2,729,023 | 0 | 2,729,023 | 653,598 |
| **Loans and receivables** | **10,107,498** | **0** | **892,530** | **9,365,383** | **10,257,912** | **150,415** |
| Deposits | 742,115 | 0 | 892,530 | 0 | 892,530 | 150,415 |
| Loans granted | 3,090,072 | 0 | 0 | 3,090,072 | 3,090,072 | 0 |
| Deposits with cedants | 6,275,310 | 0 | 0 | 6,275,310 | 6,275,310 | 0 |
| **Total investments** | **244,291,434** | **108,231,449** | **122,225,387** | **14,638,609** | **245,095,447** | **804,013** |

| (EUR) 31/12/2017 | Carrying amount | Fair value | | | | Difference between FV and CA |
|---|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total fair value | |
| **Investments measured at fair value** | **235,865,689** | **168,973,221** | **63,313,461** | **3,579,007** | **235,865,689** | **0** |
| **At fair value through P/L** | **409,573** | **0** | **409,573** | **0** | **409,573** | **0** |
| Designated to this category | 409,573 | 0 | 409,573 | 0 | 409,573 | 0 |
| Equity instruments | 409,573 | 0 | 409,573 | 0 | 409,573 | 0 |
| Available-for-sale | 235,456,116 | 168,973,221 | 62,903,888 | 3,579,007 | 235,456,116 | 0 |
| Debt instruments | 222,604,081 | 166,110,840 | 56,493,241 | 0 | 222,604,081 | 0 |
| Equity instruments | 12,852,035 | 2,862,381 | 6,410,647 | 3,579,007 | 12,852,035 | 0 |
| **Investments not measured at fair value** | **14,915,997** | **2,817,696** | **3,127,264** | **10,442,271** | **16,387,231** | **1,471,235** |
| **Held-to-maturity assets** | **2,075,111** | **2,817,696** | **0** | **0** | **2,817,696** | **742,584** |
| Debt instruments | 2,075,111 | 2,817,696 | 0 | 0 | 2,817,696 | 742,584 |
| **Loans and receivables** | **12,840,885** | **0** | **3,127,264** | **10,442,271** | **13,569,536** | **728,650** |
| Deposits | 2,398,614 | 0 | 3,127,264 | 0 | 3,127,264 | 728,650 |
| Loans granted | 4,609,924 | 0 | 0 | 4,609,924 | 4,609,924 | 0 |
| Deposits with cedants | 5,832,347 | 0 | 0 | 5,832,347 | 5,832,347 | 0 |
| **Total investments** | **250,781,685** | **171,790,917** | **66,440,725** | **14,021,278** | **252,252,920** | **1,471,235** |

As BID CBBT prices were unavailable for a large part of the bond portfolio, the BVAL price as at 31 December 2018 was used instead, in accordance with the methodology for determining the fair value of debt securities.

### Gains and losses on level 3 financial assets

| (EUR) | Debt instruments | | Equity instruments | | Alternative (infrastructure) funds | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| Income | 30,050 | 0 | 100,701 | 80,897 | 29,116 | 0 |
| Expenses | 0 | 0 | 1,943,974 | 0 | 0 | 0 |

### Movements in level 3 financial assets

| (EUR) | Debt instruments | | Equity instruments | | Investments in alternative (infrastructure) funds | |
|---|---|---|---|---|---|---|
| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
| **Opening balance** | **0** | **0** | **3,579,007** | **3,899,007** | **0** | **0** |
| Additions | 0 | 0 | 0 | 0 | 2,054,931 | 0 |
| Impairment | 0 | 0 | -1,943,974 | -320,000 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | -299,663 | 0 |
| Revaluation to fair value | 0 | 0 | 0 | 0 | 105,340 | 0 |
| Reclassification into level | 1,677,436 | 0 | 100,150 | 0 | 0 | 0 |
| **Closing balance** | **1,677,436** | **0** | **1,735,183** | **3,579,007** | **1,860,608** | **0** |

### Reclassification of assets and financial liabilities between levels

| (EUR) 31/12/2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **At fair value through P/L** | **0** | **-1,643,558** | **1,643,558** |
| Designated to this category | 0 | -1,643,558 | 1,643,558 |
| Debt instruments | 0 | -1,643,558 | 1,643,558 |
| **Available-for-sale** | **-54,620,465** | **54,432,367** | **188,098** |
| Debt instruments | -54,620,465 | 54,532,517 | 87,948 |
| Equity instruments | 0 | -100,150 | 100,150 |
| **Total** | **-54,620,465** | **52,788,809** | **1,831,656** |

| (EUR) 31/12/2017 | Level 1 | Level 2 |
|---|---|---|
| **Available-for-sale** | **3,491,762** | **-3,491,762** |
| Debt instruments | 3,491,762 | -3,491,762 |
| **Total** | **3,491,762** | **-3,491,762** |

### Disclosure of the fair value of non-financial assets measured in the statement of financial position at amortised cost or at cost

| Property 31/12/2018 | Date of fair value measurement | Carrying amount at reporting date | Fair value at reporting date | Determination of fair values |
|---|---|---|---|---|
| Owner-occupied property | 31/12/2018 | 1,917,105 | 2,883,338 | market approach and income approach (weighted 50 : 50), new purchases at cost |
| Investment property | 31/12/2018 | 8,221,614 | 8,503,694 | |
| **Total** | | **10,138,719** | **11,387,032** | |

| Property 31/12/2017 | Date of fair value measurement | Carrying amount at reporting date | Fair value at reporting date | Determination of fair values |
|---|---|---|---|---|
| Owner-occupied property | 31/12/2017 | 1,830,020 | 2,746,347 | market approach and income approach (weighted 50 : 50), new purchases at cost |
| Investment property | 31/12/2017 | 8,230,878 | 8,431,802 | |
| **Total** | | **10,060,898** | **11,178,149** | |

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Movements in the fair value of land and buildings

| (EUR) | 01/01/2018 | Acquisitions | Realloca-tions | Change in fair value | 31/12/2018 |
|---|---|---|---|---|---|
| Owner-occupied property | 2,746,347 | 39,546 | 136,991 | -39,546 | 2,883,338 |
| Investment property | 8,431,802 | 208,883 | -136,991 | 0 | 8,503,694 |
| **Total** | **11,178,149** | **248,429** | **0** | **-39,546** | **11,387,032** |

| (EUR) | 01/01/2017 | Reallocations | 31/12/2017 |
|---|---|---|---|
| Owner-occupied property | 8,015,572 | -5,269,225 | 2,746,347 |
| Investment property | 3,236,030 | 5,195,772 | 8,431,802 |
| **Total** | **11,251,602** | **-73,453** | **11,178,149** |

In 2018, the Company primarily measured its OTC assets based on BID CBBT prices representing unadjusted quoted prices, thus meeting the criteria for classification into level 1.

In 2018, the proportion of OTC assets measured based on closing BID CBBT prices declined flat compared to the end of 2017. As at 31 December 2018, level 1 investments represented 46.6% (31/12/2017: 72.2%) of financial investments measured at fair value.

Quoted financial instruments that did not meet the active market criterion as at 31 December 2018, were valued based on an internal model. The valuation model applied used directly and indirectly observable market inputs such as: the risk free interest rate curve, yield of similar financial instruments, and credit and liquidity risk premiums. Since inputs used by the model meet level 2 criteria, investments valued using the internal model were classified into level 2.

Valuation methods for the above-mentioned items are described at the beginning of these notes under accounting policies. For investment property, the method is set out in section 23.2.12 "Investment property", for financial investments in subsidiaries and associates in section 23.2.13 "Financial investments in subsidiaries and associates", and for financial investments in section 23.2.14 "Financial investments".

# 23.7 Notes to the financial statements – income statement

## 23) Net earned premiums

Net earned premiums

| (EUR) 2018 | Gross premiums written | Reinsurers' and co-insurers' shares (-) | Change in gross unearned premiums (+/-) | Change in unearned premiums, reinsurers' and co-insurers' shares (+/-) | Net premiums earned |
|---|---|---|---|---|---|
| Personal accident | 5,129,020 | -41,007 | -65,156 | -2,837 | 5,020,019 |
| Health | 140,611 | 0 | 4,945 | 0 | 145,556 |
| Land vehicles casco | 18,630,923 | -745,814 | 159,869 | -2,001 | 18,042,977 |
| Railway rolling stock | 122,506 | -2,244 | 13,012 | 156 | 133,430 |
| Aircraft hull | 786,247 | -5,594 | -62,226 | -516 | 717,912 |
| Ships hull | 5,666,010 | -387,575 | -258,038 | 28,242 | 5,048,639 |
| Goods in transit | 5,296,882 | -233,817 | -40,219 | -5,419 | 5,017,426 |
| Fire and natural forces | 69,954,809 | -11,625,323 | 800,787 | 307,753 | 59,438,026 |
| Other damage to property | 19,963,622 | -3,304,643 | 414,345 | -142,082 | 16,931,240 |
| Motor liability | 14,868,527 | -486,347 | -642,927 | 0 | 13,739,254 |
| Aircraft liability | 148,068 | -46,782 | -12,278 | 5,766 | 94,774 |
| Liability for ships | 747,076 | -15,846 | -21,614 | 7,023 | 716,638 |
| General liability | 7,859,330 | -586,121 | -160,708 | -130,108 | 6,982,393 |
| Credit | 925,198 | 0 | 11,095 | 0 | 936,293 |
| Suretyship | 36,241 | 0 | -27,252 | 0 | 8,989 |
| Miscellaneous financial loss | 645,442 | -571,507 | 348,710 | -8,698 | 413,947 |
| Legal expenses | -71 | 0 | 1,906 | 0 | 1,835 |
| Assistance | 17,888 | 0 | 0 | 0 | 17,888 |
| Life | 513,723 | -261,563 | -118,472 | -475 | 133,213 |
| Unit-linked life | 184,166 | -93,610 | 109,173 | 0 | 199,729 |
| **Total non-life** | **150,938,327** | **-18,052,620** | **464,251** | **57,278** | **133,407,236** |
| **Total life** | **697,889** | **-355,173** | **-9,299** | **-475** | **332,942** |
| **Total** | **151,636,216** | **-18,407,793** | **454,952** | **56,803** | **133,740,178** |

| (EUR) 2017 | Gross premiums written | Reinsurers' and co-insurers' shares (-) | Change in gross unearned premiums (+/-) | Change in unearned premiums, reinsurers' and co-insurers' shares (+/-) | Net premiums earned |
|---|---|---|---|---|---|
| Personal accident | 5,391,534 | -36,818 | 217,401 | -7,921 | 5,564,197 |
| Health | 3,244,210 | 0 | 18,053 | 0 | 3,262,263 |
| Land vehicles casco | 17,966,660 | -1,197,798 | -1,640,571 | 2,538 | 15,130,829 |
| Railway rolling stock | 211,981 | -4,248 | -16,863 | 339 | 191,209 |
| Aircraft hull | 12,326 | -7,894 | 115,173 | 630 | 120,235 |
| Ships hull | 5,542,664 | -347,486 | -488,455 | 65,421 | 4,772,144 |
| Goods in transit | 5,234,561 | -259,542 | -326,765 | -2,999 | 4,645,256 |
| Fire and natural forces | 70,920,629 | -11,050,787 | -906,503 | 335,223 | 59,298,562 |
| Other damage to property | 18,222,571 | -3,662,864 | 193,694 | 202,956 | 14,956,358 |
| Motor liability | 14,484,378 | -531,754 | -796,481 | 0 | 13,156,142 |
| Aircraft liability | 139,060 | -49,171 | -6,197 | -11,011 | 72,682 |
| Liability for ships | 723,250 | -9,932 | -20,111 | 1,566 | 694,773 |
| General liability | 7,554,812 | -864,517 | -308,297 | 192,574 | 6,574,571 |
| Credit | 980,196 | 0 | -186,709 | 0 | 793,486 |
| Suretyship | 242,199 | 0 | 20,594 | 0 | 262,793 |
| Miscellaneous financial loss | 1,509,279 | -523,828 | -87,455 | 27,438 | 925,433 |
| Legal expenses | 10,118 | 0 | 370 | 0 | 10,488 |
| Assistance | 19,355 | 0 | -16 | 0 | 19,339 |
| Life | 489,010 | -243,967 | 73,670 | 2,469 | 321,182 |
| Unit-linked life | 320,960 | -116,710 | -111,574 | 0 | 92,677 |
| **Total non-life** | **152,409,782** | **-18,546,637** | **-4,219,138** | **806,756** | **130,450,762** |
| **Total life** | **809,970** | **-360,677** | **-37,904** | **2,469** | **413,858** |
| **Total** | **153,219,752** | **-18,907,314** | **-4,257,043** | **809,225** | **130,864,620** |

The above table shows the movement in gross premiums written. In 2018 gross premiums written in Slovenia rose by 10.0%, or EUR 5.3 million, (increase in premiums written by Zavarovalnica Sava). This favourable premium growth is a result of growth in motor business (increase both in average premium and number of policies written), attraction of some new customers and growth in the portfolio of direct international business based on the freedom of services principle. Gross premiums written from abroad dropped by 6.8% or EUR 6.8 million. Premiums were lower due to strict underwriting discipline during the soft market phase and the related selective underwriting.

Despite the drop in gross premiums written, net premiums earned for the period were higher than in 2017. Net unearned premiums were lower than at year-end 2017, while last year's figure was an increase from end of 2016. This trend is the result of decline in gross premiums written abroad in 2018 and their growth in 2017.

### 24) Income and expenses relating to investments in subsidiaries and associates

In 2018 the Company received dividends from its subsidiaries amounting to EUR 33.6 million (2017: EUR 26.1 million). It also had expenses related to investments in subsidiaries of EUR 4.0 million (2017: EUR 0).

## 25) Investment income and expenses

### Investment income, expenses and net investment income by IFRS category

Income relating to financial assets and liabilities from 1 January to 31 December 2018

| (EUR) | Interest income | Change in fair value and gains on disposal of FVPL assets | Gains on disposal of other IFRS asset categories | Income from dividends and shares – other investments | Exchange gains | Other income | Total |
|---|---|---|---|---|---|---|---|
| **Held to maturity** | **102,814** | **0** | **0** | **0** | **0** | **0** | **102,814** |
| Debt instruments | 102,814 | 0 | 0 | 0 | 0 | 0 | 102,814 |
| **At fair value through P/L** | **55,329** | **91,554** | **0** | **21,625** | **906** | **0** | **169,414** |
| Designated to this category | 55,329 | 91,554 | 0 | 21,625 | 906 | 0 | 169,414 |
| Debt instruments | 55,329 | 40,126 | 0 | 0 | 0 | 0 | 95,455 |
| Equity instruments | 0 | 51,428 | 0 | 21,625 | 906 | 0 | 73,959 |
| **Available-for-sale** | **3,176,067** | **0** | **477,596** | **654,520** | **6,002,244** | **5,677** | **10,316,104** |
| Debt instruments | 3,176,067 | 0 | 375,429 | 0 | 6,002,244 | 5,677 | 9,559,416 |
| Equity instruments | 0 | 0 | 102,167 | 625,404 | 0 | 0 | 727,571 |
| Infrastructure funds | 0 | 0 | 0 | 29,116 | 0 | 0 | 29,116 |
| **Loans and receivables** | **237,681** | **0** | **0** | **0** | **109,381** | **0** | **347,062** |
| Debt instruments | 208,885 | 0 | 0 | 0 | 0 | 0 | 208,885 |
| Other investments | 28,796 | 0 | 0 | 0 | 109,381 | 0 | 138,177 |
| **Deposits with cedants** | **17,803** | **0** | **0** | **0** | **0** | **0** | **17,803** |
| **Total** | **3,589,693** | **91,554** | **477,596** | **676,145** | **6,112,531** | **5,677** | **10,953,196** |

Expenses relating to financial assets and liabilities from 1 January to 31 December 2018

| (EUR) | Interest expenses | Change in fair value and losses on disposal of FVPL assets | Losses on disposal of other IFRS asset categories | Impairment losses on investments | Exchange losses | Total | Other |
|---|---|---|---|---|---|---|---|
| **At fair value through P/L** | **0** | **217,937** | **0** | **0** | **0** | **217,937** | **0** |
| Designated to this category | 0 | 217,937 | 0 | 0 | 0 | 217,937 | 0 |
| Debt instruments | 0 | 167,542 | 0 | 0 | 0 | 167,542 | 0 |
| Equity instruments | 0 | 50,395 | 0 | 0 | 0 | 50,395 | 0 |
| **Available-for-sale** | **0** | **0** | **125,388** | **1,943,974** | **6,021,753** | **8,091,114** | **0** |
| Debt instruments | 0 | 0 | 83,900 | 0 | 6,021,383 | 6,105,283 | 0 |
| Equity instruments | 0 | 0 | 41,488 | 1,943,974 | 369 | 1,985,831 | 0 |
| **Loans and receivables** | **0** | **0** | **0** | **0** | **187,299** | **187,299** | **0** |
| Other investments | 0 | 0 | 0 | 0 | 187,299 | 187,299 | 0 |
| **Total** | **0** | **217,937** | **125,388** | **1,943,974** | **6,209,052** | **8,496,351** | **0** |

### Net inv. income of financial assets and liabilities from 1 January to 31 December 2018

| (EUR) | Interest income/ expenses | Change in fair value and gains/losses on disposal of FVPL assets | Profit/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 |
|---|---|---|---|---|---|---|---|---|
| **Held to maturity** | **102,814** | **0** | **0** | **0** | **0** | **0** | **0** | **102,814** |
| Debt instruments | 102,814 | 0 | 0 | 0 | 0 | 0 | 0 | 102,814 |
| **At fair value through P/L** | **55,329** | **-126,383** | **0** | **21,625** | **0** | **906** | **0** | **-48,523** |
| Designated to this category | 55,329 | -126,383 | 0 | 21,625 | 0 | 906 | 0 | -48,523 |
| Debt instruments | 55,329 | -127,416 | 0 | 0 | 0 | 0 | 0 | -72,087 |
| Equity instruments | 0 | 1,033 | 0 | 21,625 | 0 | 906 | 0 | 23,564 |
| **Available-for-sale** | **3,176,067** | **0** | **352,208** | **654,520** | **-1,943,974** | **-19,509** | **5,677** | **2,224,990** |
| Debt instruments | 3,176,067 | 0 | 291,529 | 0 | 0 | -19,140 | 5,677 | 3,454,133 |
| Equity instruments | 0 | 0 | 60,680 | 625,404 | -1,943,974 | -369 | 0 | -1,258,260 |
| Investments in infrastructure funds | 0 | 0 | 0 | 29,116 | 0 | 0 | 0 | 29,116 |
| **Loans and receivables** | **237,681** | **0** | **0** | **0** | **0** | **-77,919** | **0** | **159,762** |
| Debt instruments | 208,885 | 0 | 0 | 0 | 0 | 0 | 0 | 208,885 |
| Other investments | 28,796 | 0 | 0 | 0 | 0 | -77,919 | 0 | -49,123 |
| **Deposits with cedants** | **17,803** | **0** | **0** | **0** | **0** | **0** | **0** | **17,803** |
| **Total** | **3,589,693** | **-126,383** | **352,208** | **676,145** | **-1,943,974** | **-96,521** | **5,677** | **2,456.845** |

### Income relating to financial assets and liabilities from 1 January to 31 December 2017

| (EUR) | Interest income | Change in fair value and gains on disposal of FVPL assets | Gains on disposal of other IFRS asset categories | Income from dividends and shares – other investments | Exchange gains | Other income | Total |
|---|---|---|---|---|---|---|---|
| **Held to maturity** | **102,798** | **0** | **0** | **0** | **0** | **0** | **102,798** |
| Debt instruments | 102,798 | 0 | 0 | 0 | 0 | 0 | 102,798 |
| **At fair value through P/L** | **0** | **77,774** | **0** | **19,588** | **0** | **0** | **97,362** |
| Designated to this category | 0 | 77,774 | 0 | 19,588 | 0 | 0 | 97,362 |
| Equity instruments | 0 | 77,774 | 0 | 19,588 | 0 | 0 | 97,362 |
| **Available-for-sale** | **3,487,674** | **0** | **1,227,175** | **599,246** | **3,772,867** | **10,174** | **9,097,137** |
| Debt instruments | 3,487,674 | 0 | 1,124,282 | 0 | 3,772,867 | 7,627 | 8,392,450 |
| Equity instruments | 0 | 0 | 102,893 | 599,246 | 0 | 2,547 | 704,687 |
| **Loans and receivables** | **261,057** | **0** | **0** | **0** | **49,862** | **0** | **310,918** |
| Debt instruments | 232,008 | 0 | 0 | 0 | 0 | 0 | 232,008 |
| Other investments | 29,049 | 0 | 0 | 0 | 49,862 | 0 | 78,911 |
| **Deposits with cedants** | **44,415** | **0** | **0** | **0** | **0** | **0** | **44,415** |
| **Total** | **3,895,944** | **77,774** | **1,227,175** | **618,834** | **3,822,729** | **10,174** | **9,652,630** |

### Expenses relating to financial assets and liabilities from 1 January to 31 December 2017

| (EUR) | Interest expenses | Change in fair value and losses on disposal of FVPL assets | Losses on disposal of other IFRS asset categories | Impairment losses on investments | Exchange losses | Other | Total |
|---|---|---|---|---|---|---|---|
| **At fair value through P/L** | **0** | **76,271** | **0** | **0** | **0** | **0** | **76,271** |
| Designated to this category | 0 | 76,271 | 0 | 0 | 0 | 0 | 76,271 |
| Equity instruments | 0 | 76,271 | 0 | 0 | 0 | 0 | 76,271 |
| **Available-for-sale** | **0** | **0** | **130,028** | **320,000** | **9,097,932** | **422** | **9,548,382** |
| Debt instruments | 0 | 0 | 82,313 | 0 | 9,097,932 | 0 | 9,180,245 |
| Equity instruments | 0 | 0 | 47,715 | 320,000 | 0 | 422 | 368,137 |
| **Loans and receivables** | **0** | **0** | **0** | **0** | **208,337** | **0** | **208,337** |
| Other investments | 0 | 0 | 0 | 0 | 208,337 | 0 | 208,337 |
| **Subordinated liabilities** | **718,338** | **0** | **0** | **0** | **0** | **0** | **718,338** |
| **Total** | **718,338** | **76,271** | **130,028** | **320,000** | **9,306,269** | **422** | **10,551,329** |

### Net investment income of financial assets and liabilities from 1 January to 31 December 2017

| (EUR) | Income/ expense for interest | Change in fair value and gains/losses on disposal of FVPL assets | Profit/ losses on disposal of other IFRS asset categories | Income from dividends and shares – other investments | Impairment losses on investments | Exchange gains/ exchange losses | Other income/ expenses | Total |
|---|---|---|---|---|---|---|---|---|
| **Held to maturity** | **102,798** | **0** | **0** | **0** | **0** | **0** | **0** | **102,798** |
| Debt instruments | 102,798 | 0 | 0 | 0 | 0 | 0 | 0 | 102,798 |
| **At fair value through P/L** | **0** | **1,503** | **0** | **19,588** | **0** | **0** | **0** | **21,091** |
| Designated to this category | 0 | 1,503 | 0 | 19,588 | 0 | 0 | 0 | 21,091 |
| Equity instruments | 0 | 1,503 | 0 | 19,588 | 0 | 0 | 0 | 21,091 |
| **Available-for-sale** | **3,487,674** | **0** | **1,097,146** | **599,246** | **-320,000** | **-5,325,065** | **9,752** | **-451,246** |
| Debt instruments | 3,487,674 | 0 | 1,041,969 | 0 | 0 | -5,325,065 | 7,627 | -787,795 |
| Equity instruments | 0 | 0 | 55,178 | 599,246 | -320,000 | 0 | 2,125 | 336,549 |
| **Loans and receivables** | **261,057** | **0** | **0** | **0** | **0** | **-158,475** | **0** | **102,582** |
| Debt instruments | 232,008 | 0 | 0 | 0 | 0 | 0 | 0 | 232,008 |
| Other investments | 29,049 | 0 | 0 | 0 | 0 | -158,475 | 0 | -129,426 |
| **Deposits with cedants** | **44,415** | **0** | **0** | **0** | **0** | **0** | **0** | **44,415** |
| **Subordinated liabilities** | **-718,338** | **0** | **0** | **0** | **0** | **0** | **0** | **-718,338** |
| **Total** | **3,177,606** | **1,503** | **1,097,146** | **618,834** | **-320,000** | **-5,483,540** | **9,752** | **-898,699** |

Income relating to financial assets and liabilities in 2018 amounted to EUR 10.95 million (2017: EUR 9.7 million).

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Expenses relating to financial assets and liabilities in 2018 amounted to EUR 8.5 million (2017: EUR 10.6 million).

The net investment income relating to financial assets and liabilities (excluding that of subsidiaries) was – EUR 2.5 million (2017: EUR -0.9 million). The increase is mainly due to lower net exchange rate differences. The net amount of exchange differences is still a loss of EUR 0.1 million (2017: exchange gain of EUR 5.5 million).

In 2018, the Company earned EUR 1,427 of interest income on impaired investments; in 2017: EUR 1,002.

### Investment income and expenses by source of funds

The Company records investment income and expenses separately depending on whether they relate to own fund assets or non-life insurance register assets. Own fund assets support shareholders' funds, while the assets of the non-life insurance registers support technical provisions.

#### Investment income

| (EUR) | Liability fund 2018 | Liability fund 2017 |
|---|---|---|
| Interest income | 3,237,373 | 3,443,665 |
| Change in fair value and gains on disposal of FVPL assets | 77,483 | 77,774 |
| Gains on disposal of other IFRS asset categories | 468,988 | 969,436 |
| Income from dividends and shares – other investments | 478,249 | 428,209 |
| Exchange gains | 6,110,443 | 3,804,465 |
| Other income | 5,677 | 10,175 |
| **Total investment income – liability fund** | **10,378,214** | **8,733,724** |
| | **Capital fund 2018** | **Capital fund 2017** |
| Interest income | 352,320 | 452,279 |
| Change in fair value and gains on disposal of FVPL | 14,071 | 0 |
| Gains on disposal of other IFRS asset categories | 8,608 | 257,739 |
| Income from dividends and shares – other investments | 197,896 | 190,625 |
| Exchange gains | 2,087 | 18,264 |
| **Total investment income - capital fund** | **574,982** | **918,906** |
| **Total investment income** | **10,953,196** | **9,652,630** |

#### Investment expenses

| (EUR) | Liability fund 2018 | Liability fund 2017 |
|---|---|---|
| Change in fair value and losses on disposal of FVPL assets | 135,245 | 76,271 |
| Losses on disposal of other IFRS asset categories | 120,320 | 119,908 |
| Impairment losses on investments | 1,943,974 | 0 |
| Exchange losses | 6,207,534 | 9,300,337 |
| **Total investment expenses – liability fund** | **8,407,073** | **9,496,516** |
| | **Capital fund 2018** | **Capital fund 2017** |
| Interest expenses | 0 | 718,338 |
| Change in fair value and losses on disposal of FVPL | 82,692 | 0 |
| Losses on disposal of other IFRS asset categories | 5,068 | 10,120 |
| Impairment losses on investments | 0 | 320,000 |
| Exchange losses | 1,518 | 5,933 |
| Other | 0 | 422 |
| **Total investment expenses – capital fund** | **89,277** | **1,054,812** |
| **Total investment expenses** | **8,496,351** | **10,551,329** |

| | | |
|---|---|---|
| **Net investment income** | **2,456,845** | **-898,699** |

Impairment losses on investments

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Shares | 1,943,974 | 320,000 |

### 26) Other technical income

| (EUR) | 2018 | 2017 |
|---|---|---|
| Commission income | 2,530,359 | 1,934,678 |
| Exchange gains from reinsurance business | 5,355,817 | 3,743,989 |
| Other technical income | 1,078,785 | 419,718 |
| **Total** | **8,964,961** | **6,098,385** |

In 2018, the Company again had high exchange gains arising out of reinsurance business, but again also high exchange losses arising out of reinsurance business, as set out in note 31. Pursuant to our investment policy, we perform currency hedging.

Commission income, net of change in deferred acquisition costs attributable to reinsurers

| (EUR) | 2018 | 2017 |
|---|---|---|
| Personal accident | 13,979 | 12,906 |
| Land vehicles casco | 790 | 655 |
| Railway rolling stock | 46 | 190 |
| Aircraft hull | 678 | 656 |
| Ships hull | 1,784 | 2,138 |
| Goods in transit | 26,560 | 8,739 |
| Fire and natural forces | 1,722,566 | 1,299,374 |
| Other damage to property | 560,467 | 452,379 |
| Motor liability | 159 | 807 |
| Aircraft liability | 6,022 | 8,043 |
| Liability for ships | 260 | 274 |
| General liability | 31,940 | 32,334 |
| Miscellaneous financial loss | 89,671 | 52,368 |
| Life | 59,711 | 36,130 |
| Unit-linked life | 15,725 | 27,684 |
| **Total non-life** | **2,454,922** | **1,870,864** |
| **Total life** | **75,437** | **63,814** |
| **Total** | **2,530,359** | **1,934,678** |

### 27) Other income and expenses

Other income and expenses mainly include collected bad debt relating to other receivables that had been written-off, default interest under a final court decision and, to a minor extent, gains on the disposal of fixed assets and income from the use of holiday facilities.

The other expenses item mainly comprises expenses incurred by the Company on investment property before it was leased.

### 28) Net claims incurred

| (EUR) 2018 | Gross amounts: Claims | Gross amounts: Recourse receivables | Reinsurers' share of claims (–) | Change in the gross claims provision (+/–) | Change in the reinsurers' and co-insurers' share of the claims provision (+/–) | Net claims incurred |
|---|---|---|---|---|---|---|
| Personal accident | 3,569,281 | 0 | -6,715 | -1,551,886 | 950 | 2,011,630 |
| Health | 223,414 | 0 | 0 | -330,978 | 0 | -107,564 |
| Land vehicles casco | 12,439,633 | -197,538 | -134,940 | 225,112 | -89,382 | 12,242,884 |
| Railway rolling stock | 559,088 | 0 | -13 | 28,184 | 0 | 587,259 |
| Aircraft hull | 1,080,337 | 0 | 0 | -687,951 | -2,539 | 389,846 |
| Ships hull | 3,392,217 | 0 | -5,004 | 3,650,700 | -144,687 | 6,893,226 |
| Goods in transit | 5,544,521 | -5,262 | -235 | -500,067 | -6,098 | 5,032,859 |
| Fire and natural forces | 35,268,510 | -7,760 | -5,101,716 | 547,829 | 842,107 | 31,548,970 |
| Other damage to property | 9,754,664 | -5,847 | -886,923 | -728,560 | 686,130 | 8,819,464 |
| Motor liability | 9,616,767 | -1,346,975 | -182,340 | 581,823 | -2,674,383 | 5,994,892 |
| Aircraft liability | -5,394 | 0 | 0 | -23,546 | 0 | -28,940 |
| Liability for ships | 341,558 | -389 | 0 | 32,607 | 3,317 | 377,093 |
| General liability | 2,204,597 | -1,820 | -538 | 817,014 | -6,645 | 3,012,608 |
| Credit | 399,237 | -627,662 | 0 | 155,356 | 0 | -73,069 |
| Suretyship | 60,462 | -1,163 | 0 | -147,315 | 0 | -88,016 |
| Miscellaneous financial loss | 226,844 | 0 | -40,458 | -158,674 | 31,627 | 59,339 |
| Legal expenses | 447 | 0 | 0 | -1,843 | 0 | -1,396 |
| Assistance | 306 | 0 | 0 | -437 | 0 | -131 |
| Life | 126,290 | 0 | -88,078 | -189,515 | 43,655 | -107,649 |
| Unit-linked life | 79,314 | 0 | -48,374 | 1,284 | 9,102 | 41,325 |
| **Total non-life** | **84,676,490** | **-2,194,416** | **-6,358,882** | **1,907,368** | **-1,359,603** | **76,670,957** |
| **Total life** | **205,604** | **0** | **-136,452** | **-188,232** | **52,757** | **-66,324** |
| **Total** | **84,882,093** | **-2,194,416** | **-6,495,334** | **1,719,136** | **-1,306,847** | **76,604,633** |

| (EUR) 2017 | Gross amounts Claims | Recourse receivables | Reinsurers' share of claims (–) | Change in the gross claims provision (+/–) | Change in the reinsurers' and co-insurers' share of the claims provision (+/–) | Net claims incurred |
|---|---|---|---|---|---|---|
| Personal accident | 3,061,325 | 0 | -4,711 | -659,597 | -2,654 | 2,394,364 |
| Health | 2,763,819 | 0 | 0 | -243,071 | 0 | 2,520,748 |
| Land vehicles casco | 11,555,307 | -182,093 | -718,365 | -651,684 | 620,857 | 10,624,022 |
| Railway rolling stock | 91,017 | 0 | -4 | 11,627 | 0 | 102,640 |
| Aircraft hull | 36,632 | 0 | 0 | 242,205 | -3,824 | 275,013 |
| Ships hull | 4,884,680 | -420 | -3,622 | 803,252 | -145,659 | 5,538,232 |
| Goods in transit | 3,328,049 | -851 | -838 | -478,216 | -2,049 | 2,846,093 |
| Fire and natural forces | 36,765,809 | -5,532 | -3,430,891 | 6,619,118 | 315,589 | 40,264,092 |
| Other damage to property | 7,439,736 | -5,933 | -801,139 | -91,303 | -842,844 | 5,698,517 |
| Motor liability | 11,044,389 | -1,095,506 | -468,819 | -2,854,127 | -1,282,667 | 5,343,270 |
| Aircraft liability | 35,450 | 0 | -40,389 | -14,053 | 0 | -18,992 |
| Liability for ships | 374,877 | -214 | 0 | -76,512 | 0 | 298,152 |
| General liability | 1,875,812 | -2,312 | -2,767 | -141,143 | -4,222 | 1,725,368 |
| Credit | 406,895 | -590,964 | 0 | -17,589 | 0 | -201,658 |
| Suretyship | 176,292 | -534 | 0 | 100,518 | 0 | 276,275 |
| Miscellaneous financial loss | 1,297,317 | 0 | -386,146 | -342,927 | 303,888 | 872,131 |
| Legal expenses | 1,165 | 0 | 0 | -290 | 0 | 874 |
| Assistance | 9,258 | 0 | 0 | -33 | 0 | 9,225 |
| Life | 129,004 | 0 | -60,077 | -34,323 | -55,946 | -21,342 |
| Unit-linked life | 132,977 | 0 | -64,993 | -70,139 | 39,097 | 36,942 |
| **Total non-life** | **85,147,827** | **-1,884,359** | **-5,857,690** | **2,206,174** | **-1,043,585** | **78,568,367** |
| **Total life** | **261,981** | **0** | **-125,070** | **-104,462** | **-16,849** | **15,600** |
| **Total** | **85,409,808** | **-1,884,359** | **-5,982,760** | **2,101,712** | **-1,060,434** | **78,583,967** |

The above tables show (columns from left to right) gross claims paid net of recourse receivables. This column is followed by claims recovered from retrocessionaires. In addition, net claims incurred include the change in the gross claims provision, both retained and retroceded.

In 2018, gross claims paid were 0.6% below the 2017 figure. The effect of the change in the claims provision is described in note 18.

### 29) Change in other technical provisions and expenses for bonuses and rebates

In 2018 other net technical provisions increased by EUR 268,920 (2017: up EUR 158,608). The figures for both years relate to changes in the net provision for unexpired risks.

Expenses for bonuses and rebates amounted to EUR 811 in 2018 (explained with an increase in provisions for bonuses and rebates) and to EUR -85,678 in 2017 (explained with a decrease in said provisions).

### 30) Operating expenses

The Company classifies operating expenses by nature. Compared to 2017, operating expenses increased by 10.3%, mainly due to an increase in acquisition costs (EUR 1.6 million) and labour costs (EUR 1.5 million).

**Composition of operating expenses**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Acquisition costs (commissions) | 34,848,052 | 33,185,632 |
| Change in deferred acquisition costs | -43,433 | -880,778 |
| Depreciation of operating assets | 481,036 | 420,825 |
| Personnel costs | 8,298,393 | 6,832,682 |
| Salaries and wages | 6,586,422 | 5,261,466 |
| Social and pension insurance costs | 1,071,730 | 903,092 |
| Other labour costs | 640,241 | 668,124 |
| Costs under contracts for services, incl. contributions | 185,715 | 163,472 |
| Other operating expenses | 3,793,554 | 3,391,292 |
| **Total** | **47,563,317** | **43,113,125** |

Other operating expenses, net of acquisition costs (commissions) and changes in deferred acquisition costs (commissions), increased in 2018 and represented 8.4% of gross premiums written (2017: 7.1%).

**Audit fees**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Audit of annual report | 54,282 | 59,780 |
| Other assurance services | 5,561 | 6,100 |
| Other audit services | 2,279 | 12,200 |
| **Total** | **62,122** | **78,080** |

The cost of auditing the annual report includes audit costs for both Sava Re and the consolidated annual report of the Sava Re Group. Other audit services relate to assurance services for reports drawn up by the Company under Solvency II requirements.

**Acquisition costs**

| (EUR) | 2018 | 2017 |
|---|---|---|
| Personal accident | 1,380,614 | 1,268,720 |
| Health | 36,679 | 1,067,545 |
| Land vehicles casco | 4,301,974 | 3,733,175 |
| Railway rolling stock | 25,167 | 28,389 |
| Aircraft hull | 99,061 | 1,064 |
| Ships hull | 1,055,588 | 1,299,980 |
| Goods in transit | 825,014 | 1,060,298 |
| Fire and natural forces | 16,409,633 | 15,324,674 |
| Other damage to property | 4,367,021 | 3,602,661 |
| Motor liability | 3,465,539 | 3,171,810 |
| Aircraft liability | 27,513 | 18,491 |
| Liability for ships | 131,685 | 156,368 |
| General liability | 1,978,881 | 1,672,985 |
| Credit | 289,709 | 238,109 |
| Suretyship | -34,405 | 64,591 |
| Miscellaneous financial loss | 331,579 | 314,208 |
| Legal expenses | 1,174 | 3,698 |
| Assistance | 1,769 | 1,779 |
| Life | 122,987 | 94,737 |
| Unit-linked life | 30,869 | 62,350 |
| **Total non-life** | **34,694,195** | **33,028,545** |
| **Total life** | **153,856** | **157,087** |
| **Total** | **34,848,052** | **33,185,632** |

### Change in deferred acquisition costs

| (EUR) | 2018 | 2017 |
|---|---|---|
| Personal accident | -27,527 | 109,825 |
| Health | 1,472 | 2,936 |
| Land vehicles casco | 83,774 | -182,043 |
| Railway rolling stock | -2,515 | -6,622 |
| Aircraft hull | -8,036 | 20,274 |
| Ships hull | -10,950 | -206,363 |
| Goods in transit | 18,476 | -111,795 |
| Fire and natural forces | 183,552 | -525,629 |
| Other damage to property | 33,826 | 136,249 |
| Motor liability | -231,864 | 56,234 |
| Aircraft liability | -3,181 | -1,709 |
| Liability for ships | -794 | -20,060 |
| General liability | -101,963 | -100,344 |
| Credit | 13,699 | -29,837 |
| Suretyship | -2,350 | 2,964 |
| Miscellaneous financial loss | 13,675 | -28,539 |
| Legal expenses | 496 | -126 |
| Life | -3,025 | 4,089 |
| Unit-linked life | -198 | -282 |
| **Total non-life** | **-40,210** | **-884,585** |
| **Total life** | **-3,223** | **3,807** |
| **Total** | **-43,433** | **-880,778** |

## 31) Other technical expenses

| (EUR) | 2018 | 2017 |
|---|---|---|
| Expenses for exchange losses | 5,313,931 | 5,433,841 |
| Value adjustments | 107,727 | 234,467 |
| Regulator fees | 199,186 | 191,656 |
| Other technical expenses | 41,442 | 16,598 |
| **Total** | **5,662,287** | **5,876,562** |

## 32) Income tax expense

### Tax rate reconciliation

| (EUR) | 2018 | 2017 |
|---|---|---|
| Profit/loss before tax | 45,021,864 | 34,763,864 |
| Income tax expenses at statutory tax rate | 8,554,154 | 6,605,134 |
| Tax effect of income that is deducted for tax purposes | -6,521,174 | -4,838,614 |
| Tax effect of expenses not deducted for tax purposes | 1,217,676 | 289,085 |
| Income or expenses relating to tax relief | -49,839 | -37,561 |
| Other | -46,449 | -228,373 |
| **Total income tax expense in the income statement** | **3,154,368** | **1,789,672** |
| Effective tax rate | 7.01% | 5.15% |

## 23.8 Notes to the financial statements – cash flow statement

**33) Notes to the cash flow statement, which has been prepared using the indirect method**

The cash flow statement shown in section 22.4 "Cash flow statement" has been prepared in compliance with statutory regulations. This note gives a reconciliation of net profit and cash flows from operating activities.

The table below presents income statement items not included in cash flow nor presented in other parts of the cash flow statement (other than in cash flow from operating activities).

| (EUR) | 2018 | 2017 |
|---|---|---|
| **Net profit/loss for the period** | **41,867,497** | **32,974,192** |
| **Non-monetary income statement items not included in cash flow** | **6,442,265** | **8,979,610** |
| - change in unearned premiums | -511,755 | 3,447,818 |
| - change in the provision for outstanding claims | 412,289 | 1,041,278 |
| - change in other technical provisions | 268,920 | 158,608 |
| - operating expenses – amortisation/depreciation and change in deferred acquisition cost | -524,469 | -459,952 |
| - impairment losses on financial assets | 6,797,280 | 4,791,859 |
| **Eliminated investment income items** | **-37,824,293** | **-30,651,609** |
| - interest received disclosed under C. a.) 1. | -3,589,693 | -3,895,944 |
| - receipts from dividends and shares in profit of others disclosed under C. a.) 2. | -34,234,600 | -26,755,665 |
| **Eliminated investment expense items** | **0** | **718,338** |
| - interest paid disclosed under C. C) 1. | 0 | 718,338 |
| **Cash flows from operating activities – income statement items** | **10,485,469** | **12,020,532** |

## 23.9 Contingent receivables and liabilities

The Company has contingent liabilities arising out of guarantees given. The estimated contingent liabilities in this regard total EUR 6.7 million for alternative funds.

The Company has contingent liabilities from claims against issuing banks for subordinated financial instruments of EUR 10.0 million.

Off-balance sheet items are shown in the appendix hereto.

## 23.10 Related party disclosures

The Company separately discloses its relationships with the following groups of related parties:

- owners and related enterprises;
- management and supervisory board members and employees not subject to the tariff section of the collective agreement;
- subsidiaries and associates.

The Company is a party to a contract with the Sava Pokojninska pension company on the participation in a supplementary pension scheme.

**Owners and related enterprises**

The Group's largest shareholder is Slovenian Sovereign Holding with a 17.7% stake.

**Business relationship with the largest shareholder**

In 2018 the Company had no business transactions with its largest shareholder.

**The members of the management and supervisory boards, the audit committee and employees not subject to the tariff section of the collective agreement**

**Remuneration of management and supervisory board members, and of employees not subject to the tariff section of the collective agreement**

| (EUR) | 2018 | 2017 |
|---|---|---|
| The management board | 698,458 | 620,246 |
| Payments to employees not subject to the tariff section of the collective agreement | 2,817,528 | 2,580,706 |
| Supervisory board | 131,377 | 111,606 |
| Supervisory board committees | 42,516 | 32,021 |
| **Total** | **3,689,879** | **3,344,579** |

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### Remuneration of management board members in 2018

| (EUR) | Gross salary – fixed amount | Gross salary – variable amount | Fringe benefits – insurance premiums | Fringe benefits – use of company car | Total |
|---|---|---|---|---|---|
| Marko Jazbec | 160,560 | 12,630 | 248 | 7,686 | 181,124 |
| Jošt Dolničar | 144,600 | 18,655 | 5,282 | 7,469 | 176,006 |
| Srečko Čebron | 152,592 | 12,189 | 5,244 | 5,620 | 175,645 |
| Polona Pirš Zupančič | 139,404 | 0 | 3,988 | 4,906 | 148,298 |
| Mateja Treven | 5,196 | 12,189 | 0 | 0 | 17,385 |
| **Total** | **602,352** | **55,663** | **14,762** | **25,681** | **698,458** |

### Remuneration of management board members in 2017

| (EUR) | Gross salary – fixed amount | Gross salary – variable amount | Fringe benefits – insurance premiums | Fringe benefits – use of company car | Total |
|---|---|---|---|---|---|
| Marko Jazbec | 101,831 | 0 | 134 | 4,281 | 106,246 |
| Jošt Dolničar | 150,440 | 14,912 | 5,582 | 8,664 | 179,599 |
| Srečko Čebron | 152,697 | 7,170 | 5,205 | 7,116 | 172,188 |
| Mateja Treven | 141,667 | 7,170 | 5,193 | 8,184 | 162,214 |
| **Total** | **546,635** | **29,253** | **16,114** | **28,245** | **620,246** |

### Liabilities to members of the management board based on gross remuneration

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Marko Jazbec | 13,280 | 13,280 |
| Jošt Dolničar | 11,950 | 11,950 |
| Srečko Čebron | 12,616 | 12,616 |
| Polona Pirš Zupančič | 11,950 | 0 |
| Mateja Treven | 0 | 11,950 |
| **Total** | **49,796** | **49,796** |

As at 31 December 2018, the Company had no receivables due from its management board members. Management board members are not remunerated for their functions in subsidiary companies.

### Remuneration of the supervisory board and its committees in 2018

| (EUR) | | Attendance fees | Remuneration for performing the function | Reimbursement of expenses and training | Fringe benefits | Total |
|---|---|---|---|---|---|---|
| **Supervisory board members** | | | | | | |
| Mateja Lovšin Herič | chair | 2,420 | 19,500 | 0 | 0 | 21,920 |
| Slaven Mićković | deputy chair (until 15/07/2017) | 0 | 0 | 0 | 0 | 0 |
| Keith William Morris | deputy chair (since 16/08/2017) | 2,420 | 14,300 | 14,440 | 0 | 31,160 |
| Gorazd Andrej Kunstek | member | 2,420 | 13,000 | 93 | 0 | 15,513 |
| Mateja Živec | member | 2,145 | 13,000 | 81 | 0 | 15,226 |
| Davor Ivan Gjivoje | member (since 07/03/2017) | 2,475 | 13,000 | 16,423 | 0 | 31,898 |
| Andrej Kren | member (since 16/07/2017) | 2,420 | 13,000 | 240 | 0 | 15,660 |
| **Total supervisory board members** | | **14,300** | **85,800** | **31,277** | **0** | **131,377** |
| **Audit committee members** | | | | | | |
| Andrej Kren | chair (since 16/08/2017) | 1,980 | 4,875 | 194 | 0 | 7,049 |
| Slaven Mićković | chair (until 15/07/2017) | 0 | 0 | 0 | 0 | 0 |
| Mateja Lovšin Herič | member | 1,980 | 3,250 | 0 | 0 | 5,230 |
| Ignac Dolenšek | external member | 0 | 9,450 | 714 | 0 | 10,164 |
| **Total audit committee members** | | **3,960** | **17,575** | **908** | **0** | **22,443** |
| **Members of the nominations and remuneration committee** | | | | | | |
| Mateja Lovšin Herič | chair | 660 | 0 | 0 | 0 | 660 |
| Slaven Mićković | member (until 15/07/2017) | 0 | 0 | 0 | 0 | 0 |
| Keith William Morris | member (since 24/08/2017) | 660 | 0 | 0 | 0 | 660 |
| Davor Ivan Gjivoje | member (since 24/08/2017) | 220 | 0 | 0 | 0 | 220 |
| Andrej Kren | member (since 24/08/2017) | 660 | 0 | 0 | 0 | 660 |
| **Total nominations committee members** | | **2,200** | **0** | **0** | **0** | **2,200** |
| **Fit & proper committee members** | | | | | | |
| Mateja Živec | chair (since 24/08/2017) | 0 | 0 | 0 | 0 | 0 |
| Mateja Lovšin Herič | member (until 15/07/2017) | 0 | 0 | 0 | 0 | 0 |
| Keith William Morris | member (since 24/08/2017) | 0 | 0 | 0 | 0 | 0 |
| Nika Matjan | external member | 0 | 0 | 0 | 0 | 0 |
| Andrej Kren | alternate member (since 24/08/2017) | 0 | 0 | 0 | 0 | 0 |
| **Total fit & proper committee members** | | **0** | **0** | **0** | **0** | **0** |
| **Members of the risk committee** | | | | | | |
| Keith William Morris | committee chair (since 24/08/2017) | 1,100 | 4,875 | 0 | 0 | 5,975 |
| Davor Ivan Gjivoje | member (since 24/08/2017) | 1,628 | 3,521 | 0 | 0 | 5,149 |
| Slaven Mićković | external member (since 24/08/2017) | 0 | 6,750 | 0 | 0 | 6,750 |
| **Total risk committee members** | | **2,728** | **15,146** | **0** | **0** | **17,874** |

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### Remuneration of the supervisory board and its committees in 2017

| (EUR) | | Attendance fees | Remuneration for performing the function | Reimbursement of expenses and training | Fringe benefits | Total |
|---|---|---|---|---|---|---|
| **Supervisory board members** | | | | | | |
| Mateja Lovšin Herič | chair | 2,970 | 18,958 | 183 | 0 | 22,111 |
| Slaven Mićković | deputy chair (until 15/07/2017) | 1,595 | 7,727 | 0 | 0 | 9,322 |
| Keith William Morris | deputy chair (since 16/08/2017) | 2,970 | 13,489 | 10,013 | 1,069 | 27,541 |
| Gorazd Andrej Kunstek | member | 2,970 | 13,000 | 0 | 0 | 15,970 |
| Mateja Živec | member | 2,970 | 13,000 | 0 | 0 | 15,970 |
| Davor Ivan Gjivoje | member (since 07/03/2017) | 2,640 | 10,624 | 0 | 0 | 13,264 |
| Andrej Kren | member (since 16/07/2017) | 1,375 | 5,976 | 77 | 0 | 7,428 |
| **Total supervisory board members** | | **17,490** | **82,773** | **10,273** | **1,069** | **111,606** |
| **Audit committee members** | | | | | | |
| Andrej Kren | chair (since 16/08/2017) | 880 | 1,835 | 97 | 0 | 2,812 |
| Slaven Mićković | chair (until 15/07/2017) | 1,320 | 2,634 | 0 | 0 | 3,954 |
| Mateja Lovšin Herič | member | 2,200 | 2,979 | 0 | 0 | 5,179 |
| Ignac Dolenšek | external member | 0 | 10,125 | 467 | 0 | 10,592 |
| **Total audit committee members** | | **4,400** | **17,573** | **564** | **0** | **22,537** |
| **Members of the nominations and remuneration committee** | | | | | | |
| Mateja Lovšin Herič | chair | 880 | 0 | 0 | 0 | 880 |
| Slaven Mićković | member (until 15/07/2017) | 660 | 0 | 0 | 0 | 660 |
| Keith William Morris | member (since 24/08/2017) | 880 | 0 | 0 | 0 | 880 |
| Davor Ivan Gjivoje | member (since 24/08/2017) | 176 | 0 | 0 | 0 | 176 |
| Andrej Kren | member (since 24/08/2017) | 220 | 0 | 0 | 0 | 220 |
| **Total nominations committee members** | | **2,816** | **0** | **0** | **0** | **2,816** |
| **Fit & proper committee members** | | | | | | |
| Mateja Živec | chair (since 24/08/2017) | 616 | 0 | 0 | 0 | 616 |
| Mateja Lovšin Herič | member (until 15/07/2017) | 220 | 0 | 0 | 0 | 220 |
| Keith William Morris | member (since 24/08/2017) | 220 | 0 | 0 | 0 | 220 |
| Nika Matjan | external member | 0 | 0 | 0 | 0 | 0 |
| Andrej Kren | alternate member (since 24/08/2017) | 176 | 0 | 0 | 0 | 176 |
| **Total fit & proper committee members** | | **1,232** | **0** | **0** | **0** | **1,232** |
| **Members of the risk committee** | | | | | | |
| Keith William Morris | committee chair (since 24/08/2017) | 440 | 1,730 | 0 | 0 | 2,170 |
| Davor Ivan Gjivoje | member (since 24/08/2017) | 396 | 882 | 0 | 0 | 1,278 |
| Slaven Mićković | external member (since 24/08/2017) | 0 | 1,988 | 0 | 0 | 1,988 |
| **Total risk committee members** | | **836** | **4,600** | **0** | **0** | **5,436** |

### Liabilities to members of the supervisory board and audit committee of the supervisory board based on gross remuneration

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Mateja Lovšin Herič | 0 | 2,391 |
| Slaven Mićković | 350 | 788 |
| Andrej Gorazd Kunstek | 0 | 1,358 |
| Keith William Morris | 0 | 3,714 |
| Mateja Živec | 0 | 1,358 |
| Davor Ivan Gjivoje | 0 | 1,534 |
| Andrej Kren | 0 | 2,023 |
| Ignac Dolenšek | 0 | 844 |
| **Total** | **350** | **14,011** |

### Employee remuneration not subject to the tariff section of the collective agreement for 2018

| (EUR) | Gross salary – fixed amount | Gross salary – variable amount | Fringe benefits and other benefits | Total |
|---|---|---|---|---|
| Individual employment contracts | 2,331,035 | 340,028 | 146,465 | 2,817,528 |

### Employee remuneration not subject to the tariff section of the collective agreement for 2017

| (EUR) | Gross salary – fixed amount | Gross salary – variable amount | Fringe benefits and other benefits | Total |
|---|---|---|---|---|
| Individual employment contracts | 2,263,970 | 173,658 | 143,078 | 2,580,706 |

## Subsidiaries

### Investments in and amounts due from Group companies

| (EUR) | | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| Debt securities and loans granted to Group companies | gross | 2,532,183 | 4,609,924 |
| Receivables for premiums arising out of reinsurance assumed | gross | 15,107,402 | 13,394,084 |
| Short-term receivables arising out of financing | gross | 4,472 | 6,308 |
| Other short-term receivables | gross | 179,570 | 53,154 |
| Short-term deferred acquisition costs | gross | 1,879,080 | 1,182,922 |
| **Total** | | **19,702,708** | **19,246,392** |

### Liabilities to Group companies

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Liabilities for shares in reinsurance claims due to Group companies | 9,800,555 | 8,248,985 |
| Other short-term liabilities from co-insurance and reinsurance | 3,766,321 | 3,040,284 |
| Other short-term liabilities | 2,760 | 2,891 |
| **Total (excl. provisions)** | **13,569,636** | **11,292,160** |

### Liabilities to Group companies by maturity

| (EUR) | Maturity | |
|---|---|---|
| **31/12/2018** | **Up to 1 year** | **Total** |
| Liabilities for shares in reinsurance claims due to Group companies | 9,800,555 | 9,800,555 |
| Other short-term liabilities from co-insurance and reinsurance | 3,766,321 | 3,766,321 |
| Other short-term liabilities | 2,760 | 2,760 |
| **Total (excl. provisions)** | **13,569,636** | **13,569,636** |

| (EUR) | Maturity | |
|---|---|---|
| **31/12/2017** | **Up to 1 year** | **Total** |
| Liabilities for shares in reinsurance claims due to Group companies | 8,248,985 | 8,248,985 |
| Other short-term liabilities to Group companies | 3,040,284 | 3,040,284 |
| Other short-term liabilities | 2,891 | 2,891 |
| **Total (excl. provisions)** | **11,292,160** | **11,292,160** |

### Income and expenses relating to Group companies

| (EUR) | 2018 | 2017 |
|---|---|---|
| Gross premiums written | 62,318,774 | 56,998,934 |
| Change in gross unearned premiums | -2,306,927 | -2,313,806 |
| Gross claims payments | -32,562,533 | -30,532,041 |
| Change in the gross claims provision | 1,571,572 | -288,023 |
| Income from gross recourse receivables | 1,272,641 | 1,166,341 |
| Change in gross provision for bonuses, rebates and cancellations | -811 | 85,678 |
| Other operating expenses | -160,221 | -96,148 |
| Dividend income | 33,558,455 | 26,136,830 |
| Other investment income | 6,506 | 11,152 |
| Interest income | 71,728 | 76,441 |
| Acquisition costs | -13,610,558 | -12,009,817 |
| Change in deferred acquisition costs | 696,158 | -322,672 |
| Other non-life income | 326,370 | 11,865 |
| **Total** | **51,181,154** | **38,924,734** |

### Investments in governments and majority state-owned companies

| (EUR) | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Interests in companies | 8,238,751 | 8,005,401 |
| Debt securities and loans | 25,276,511 | 28,698,492 |
| **Total** | **33,515,262** | **36,703,893** |

### Income and expenses relating to majority state-owned companies

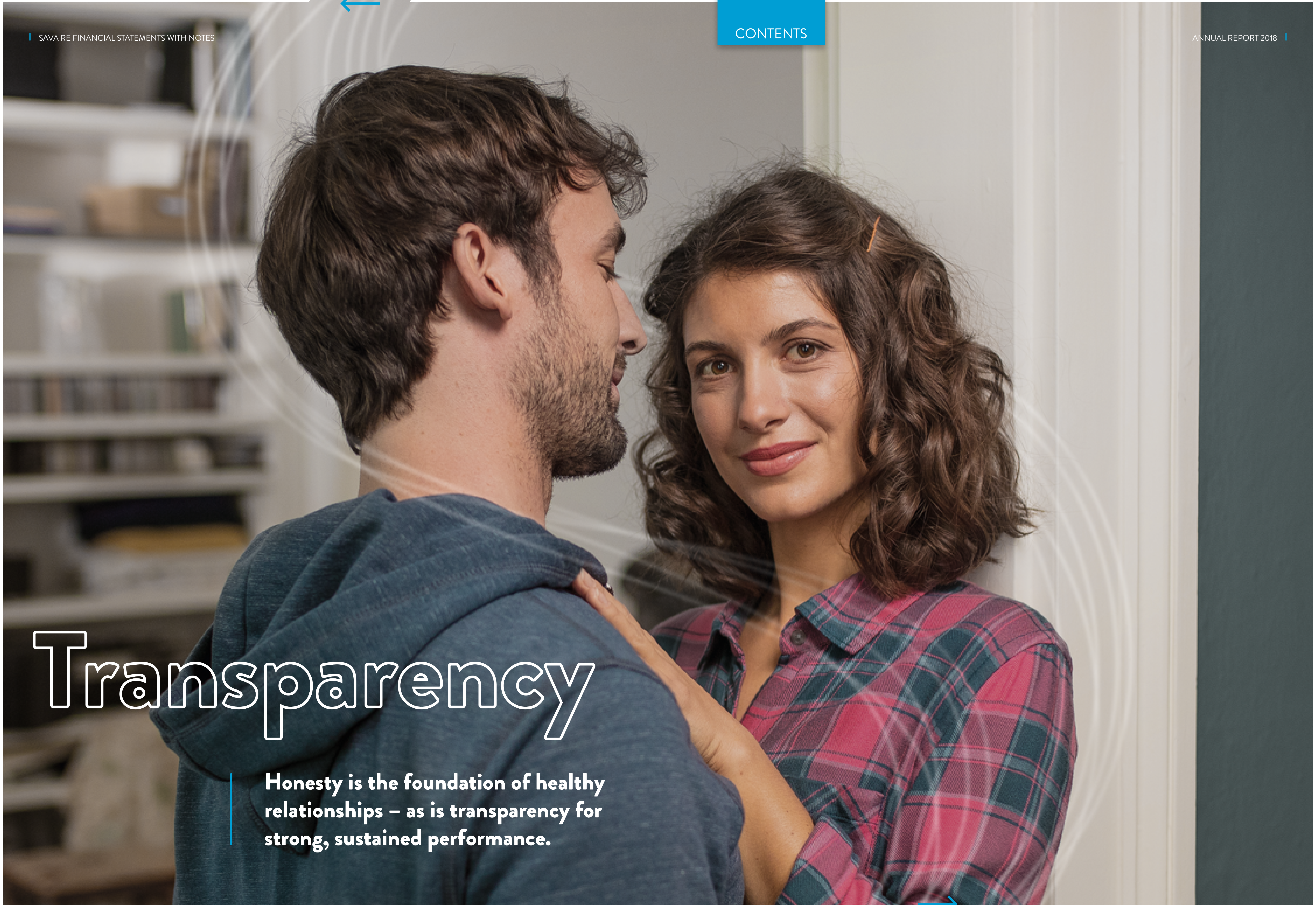
| (EUR) | 2018 | 2018 |
|---|---|---|
| Dividend income | 517,087 | 483,592 |
| Interest income | 729,578 | 972,365 |
| Exchange gains | 594,912 | 218,869 |
| Other income | 21,345 | 114,198 |
| **Total** | **1,862,921** | **1,789,024** |

### Characteristics of loans granted to subsidiaries

| Borrower | Principal | Type of loan | Maturity | Interest rate |
|---|---|---|---|---|
| Sava Neživotno Osiguranje (SRB) | 500,000 | ordinary | 30/06/2019 | 3.50% |
| Sava Neživotno Osiguranje (SRB) | 800,000 | ordinary | 15/07/2020 | 3.00% |
| Illyria | 642,000 | ordinary | 15/07/2022 | 3.00% |
| Sava Terra | 15,000 | ordinary | 11/12/2019 | 1.00% |
| Sava Terra | 499,500 | ordinary | 02/02/2021 | 1.50% |
| **Total** | **2,456,500** | | | |

# 24 Significant events after the reporting date

On 27 February 2019, Zavarovalnica Sava satisfied all suspensive conditions and became sole owner of the Croatian companies ERGO Osiguranje d.d. and ERGO Životno Osiguranje d.d.



# Transparency

**Honesty is the foundation of healthy relationships – as is transparency for strong, sustained performance.**

# Appendices

## APPENDIX A – FINANCIAL STATEMENTS OF THE SAVA RE GROUP PURSUANT TO REQUIREMENTS OF THE INSURANCE SUPERVISION AGENCY

### Consolidated statement of financial position – assets

| (EUR) | 31/12/2018 | 31/12/2017 | Index |
|---|---|---|---|
| **ASSETS** | **1,705,947,263** | **1,708,348,067** | **100** |
| **Intangible assets** | **37,121,118** | **22,712,944** | **163** |
| **Property, plant and equipment** | **42,893,432** | **45,438,014** | **94** |
| **Non-current assets held for sale** | **49,890** | **684** | **7,294** |
| **Deferred tax assets** | **1,950,245** | **2,107,564** | **93** |
| **Investment property** | **30,643,019** | **15,364,184** | **134** |
| **Financial investments in associates** | **462,974** | **0** | **0** |
| **Financial investments:** | **1,008,097,470** | **1,038,125,019** | **97** |
| - in loans and deposits | 33,542,347 | 28,029,543 | 120 |
| - held to maturity | 77,122,037 | 106,232,327 | 73 |
| - available for sale | 885,017,410 | 897,645,279 | 99 |
| - measured at fair value | 12,415,676 | 6,217,870 | 200 |
| **Funds for the benefit of policyholders who bear the investment risk** | **204,818,504** | **227,228,053** | **90** |
| **Reinsurers' and co-insurers' share of technical provisions** | **27,292,750** | **30,787,241** | **89** |
| **Investment contract assets** | **135,586,965** | **129,622,131** | **105** |
| **Receivables** | **140,550,011** | **138,455,525** | **102** |
| Receivables arising out of primary insurance business | 126,533,761 | 124,324,547 | 102 |
| Receivables arising out of reinsurance and co-insurance business | 5,835,798 | 6,197,717 | 94 |
| Current tax assets | 169,727 | 17,822 | 952 |
| Other receivables | 8,010,725 | 7,915,439 | 101 |
| **Other assets** | **21,823,454** | **20,550,589** | **106** |
| **Cash and cash equivalents** | **64,657,431** | **37,956,119** | **170** |
| **Off-balance sheet items** | **93,020,663** | **70,964,864** | **131** |

### Consolidated statement of financial position – liabilities

| (EUR) | 31/12/2018 | 31/12/2017 | Index |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | **1,705,947,263** | **1,708,348,067** | **100** |
| **Equity** | **340,175,455** | **316,116,895** | **108** |
| Share capital | 71,856,376 | 71,856,376 | 100 |
| Capital reserves | 43,035,948 | 43,035,948 | 100 |
| Profit reserves | 158,668,205 | 137,609,367 | 115 |
| Fair value reserve | 11,613,059 | 18,331,697 | 63 |
| Reserve due to fair value revaluation | 836,745 | 667,518 | 125 |
| Retained earnings | 35,140,493 | 33,093,591 | 106 |
| Net profit or loss for the period | 21,843,940 | 14,557,220 | 150 |
| Translation reserve | -3,368,928 | -3,353,304 | 100 |
| **Equity attributable to owners of the controlling company** | **339,625,838** | **315,798,413** | **861** |
| **Non-controlling interest in equity** | **549,617** | **318,482** | **173** |
| **Subordinated liabilities** | **0** | **0** | **0** |
| **Technical provisions** | **920,491,487** | **931,398,362** | **99** |
| Unearned premiums | 184,101,835 | 171,857,259 | 107 |
| Technical provisions for life insurance business | 254,849,366 | 271,409,915 | 94 |
| Provision for outstanding claims | 470,057,561 | 479,072,582 | 98 |
| Other technical provisions | 11,482,725 | 9,058,606 | 127 |
| **Technical provision for the benefit of life insurance policyholders who bear the investment risk** | **210,032,637** | **226,527,893** | **93** |
| **Other provisions** | **7,730,247** | **7,600,613** | **102** |
| **Deferred tax liabilities** | **3,529,235** | **5,781,494** | **61** |
| **Investment contract liabilities** | **135,441,508** | **129,483,034** | **105** |
| **Other financial liabilities** | **243,095** | **245,205** | **99** |
| **Liabilities from operating activities** | **54,736,601** | **60,598,188** | **90** |
| Liabilities from primary insurance business | 44,278,514 | 54,711,289 | 81 |
| Reinsurance and co-insurance payables | 6,176,032 | 5,160,183 | 120 |
| Current income tax liabilities | 4,282,055 | 726,716 | 589 |
| **Other liabilities** | **33,566,998** | **30,596,383** | **110** |
| **Off-balance sheet items** | **93,020,663** | **70,964,864** | **131** |

## Disclosure of off-balance sheet items

| (EUR) | 2018 | 2017 |
|---|---|---|
| Outstanding recourse receivables | 29,140,134 | 29,978,991 |
| Receivables from the cancellation of subordinated financial instruments | 37,960,300 | 37,960,300 |
| **Contingent assets** | **67,100,434** | **67,939,291** |

| (EUR) | 2018 | 2017 |
|---|---|---|
| Guarantees issued | 25,920,229 | 3,025,573 |
| **Contingent liabilities** | **25,920,229** | **3,025,573** |

In its off-balance sheet items for 2018 and 2017, the Group discloses contingent assets in the amount of the cancelled subordinated instruments regarding which the Group is continuing activities for the protection of its interests. In December 2016, claims were filed against the issuing banks of the subordinated financial instruments held by the Group prior to their cancellation.

## Consolidated income statement

| (EUR) | 31/12/2018 | 31/12/2017 | Index |
|---|---|---|---|
| **Net earned premiums** | **504,669,701** | **470,865,993** | **107** |
| - Gross premiums written | 546,299,539 | 517,233,431 | 106 |
| - Written premiums ceded to reinsurers and co-insurers | -26,942,852 | -34,243,296 | 79 |
| - Change in unearned premiums | -14,686,986 | -12,124,142 | 121 |
| **Investment income** | **43,669,485** | **44,296,299** | **99** |
| **Other technical income, of this** | **21,238,357** | **15,429,720** | **138** |
| - commission income | 3,634,682 | 2,870,868 | 127 |
| **Other income** | **14,549,676** | **6,058,000** | **240** |
| **Net claims and benefits incurred** | **-320,760,586** | **-296,103,320** | **108** |
| - Gross claims and benefits paid | -342,556,518 | -309,727,160 | 111 |
| - Reinsurers' and co-insurers' shares | 12,460,118 | 15,846,528 | 79 |
| - Change in the provision for outstanding claims | 9,335,814 | -2,222,688 | -420 |
| **Change in other technical provisions** | **13,207,584** | **-2,179,849** | **-606** |
| **Change in technical provisions for policyholders who bear the investment risk** | **15,962,680** | **-1,121,327** | **-1,424** |
| **Expenses for bonuses and rebates** | **288,628** | **5,848** | **4,935** |
| Operating expenses, of this | -178,131,437 | -156,962,328 | 113 |
| - Acquisition costs | -56,773,973 | -49,560,125 | 115 |
| **Expenses relating to investments in subsidiaries and associates, of this** | **-151,130** | **0** | **0** |
| Equity-accounted loss relating to investments in associate | -56,224 | 0 | 0 |
| **Investment expenses, of this** | **-33,102,696** | **-20,147,960** | **164** |
| **Other technical expenses** | **-23,305,829** | **-17,486,080** | **133** |
| **Other expenses** | **-2,873,861** | **-2,774,013** | **104** |
| **Profit or loss before tax** | **55,260,572** | **39,880,983** | **139** |
| **Income tax expense** | **-12,248,723** | **-8,786,075** | **139** |
| **Net profit or loss for the period** | **43,011,849** | **31,094,908** | **138** |
| **Net profit or loss attributable to owners of the controlling company** | **42,790,617** | **31,065,329** | **138** |
| **Net profit/loss attributable to non-controlling interests** | **221,232** | **-29,579** | **-748** |
| **Basic earnings/loss per share** | **2.76** | **2.00** | **138** |
| **Diluted earnings/loss per share** | **2.76** | **2.00** | **138** |

CONTENTS



## Consolidated statement of other comprehensive income

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **A Technical account – non-life business other than health business** | | | |
| **I. Net earned premiums** | **415,703,443** | **380,785,843** | **109.2** |
| 1. Gross premiums written | 454,122,253 | 425,059,331 | 106.8 |
| 2. Premiums written for assumed co-insurance (+) | 3,106,095 | 2,092,578 | 148.4 |
| 3. Assumed co-insurance premiums written (-) | -2,106,430 | -1,910,111 | 110.3 |
| 4. Gross reinsurance premiums written (-) | -24,743,761 | -32,235,923 | 76.8 |
| 5. Change in gross unearned premiums (+/-) | -11,407,693 | -13,863,771 | 82.3 |
| 6. Change in unearned premiums, reinsurers' and co-insurers' shares (+/-) | -3,267,021 | 1,643,739 | -198.8 |
| **II. Allocated investment return transferred from the non-technical account (item D VIII)** | **2,398,687** | **-633,221** | **0.0** |
| **III. Other net technical income** | **2,684,273** | **2,349,601** | **114.2** |
| **IV. Net claims and benefits incurred** | **234,261,548** | **223,818,071** | **104.7** |
| 1. Gross claims and benefits paid | 263,520,861 | 244,135,426 | 107.9 |
| 2. Income from realised gross recourse receivables (-) | -8,377,151 | -6,966,748 | 120.2 |
| 3. Co-insurers' shares paid (+/-) | 1,043,480 | 865,355 | 120.6 |
| 4. Reinsurers' shares paid (-) | -13,501,485 | -16,710,166 | 80.8 |
| 5. Change in the gross claims provision (+/-) | -8,970,992 | 3,203,567 | -280.0 |
| 6. Change in the reinsurers' and co-insurers' share of the claims provision (+/–) | 546,835 | -709,363 | -77.1 |
| **V. Change in other net technical provisions (+/-)** | **2,616,287** | **350,646** | **746.1** |
| **VI. Net expenses for bonuses and rebates** | **-288,628** | **-5,848** | **4,935.5** |
| **VII. Net operating expenses** | **149,607,019** | **131,482,892** | **113.8** |
| 1. Acquisition costs | 51,470,140 | 45,660,604 | 112.7 |
| 2. Change in deferred acquisition costs (+/-) | -1,118,304 | -1,881,356 | 59.4 |
| 3. Other operating expenses | 102,887,440 | 90,576,846 | 113.6 |
| 3.1 Depreciation/amortisation of operating assets | 4,947,835 | 7,222,299 | 68.5 |
| 3.2 Personnel costs | 61,457,841 | 57,565,023 | 106.8 |
| 3.3 Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions | 379,924 | 369,189 | 102.9 |
| 3.4 Other operating expenses | 36,101,840 | 25,420,335 | 142.0 |
| 4 Income from reinsurance commission and reinsurance contract profit participation (-) | -3,632,257 | -2,873,202 | 126.4 |
| **VIII. Other net technical expenses** | **7,590,087** | **7,693,174** | **98.7** |
| 1. Expenses for loss prevention activities | 3,387,535 | 3,365,303 | 100.7 |
| 2. Contributions for covering claims of uninsured and unidentified vehicles | 1,282,145 | 1,402,836 | 91.4 |
| 3. Other net technical expenses | 2,920,407 | 2,925,035 | 99.8 |
| **IX. Balance on the technical account – non-life business other than health business (I+II+III-IV-V-VI-VII-VIII)** | **27,000,090** | **19,163,288** | **140.9** |

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **B Technical account – life business** | | | |
| **I. Net earned premiums** | **88,966,258** | **90,080,150** | **98.8** |
| 1. Gross premiums written | 89,070,998 | 90,081,400 | 98.9 |
| 2. Premiums written for assumed co-insurance (+) | 193 | 122 | 158.2 |
| 3. Assumed co-insurance premiums written (-) | -19,346 | -12,176 | 158.9 |
| 4. Gross reinsurance premiums written (-) | -73,315 | -85,086 | 86.2 |
| 5. Change in gross unearned premiums (+/-) | -8,002 | 98,006 | -8.2 |
| 6. Change in unearned premiums for the reinsurance part (+/-) | -4,270 | -2,116 | 201.8 |
| **II. Investment income** | **8,199,044** | **9,895,014** | **82.9** |
| 1. Income from participating interests | 253,125 | 273,904 | 92.4 |
| 2. Income from other investments | 7,295,121 | 8,601,298 | 84.8 |
| 2.2. Interest income | 7,092,379 | 8,258,645 | 85.9 |
| 2.3. Other investment income | 202,742 | 342,653 | 59.2 |
| 2.3.1 Financial income from revaluation | 132,975 | 235,768 | 56.4 |
| 2.3.2 Other financial income | 69,767 | 106,885 | 65.3 |
| 4. Gains on disposal of investments | 650,798 | 1,019,812 | 63.8 |
| **III. Net unrealised gains on investments of life insurance policyholders who bear the investment risk** | **16,867,324** | **16,849,384** | **100.1** |
| **IV. Other net technical income** | **2,817,750** | **2,799,423** | **0.0** |
| **V. Net claims and benefits incurred** | **86,499,038** | **72,285,249** | **119.7** |
| 1. Gross claims and benefits paid | 87,412,808 | 72,558,482 | 120.5 |
| 3. Reinsurers' shares paid (-) | -2,113 | -1,717 | 123.1 |
| 4. Change in the gross claims provision (+/-) | -942,525 | -271,607 | 347.0 |
| 5. Change in the provision for outstanding claims for reinsurance (+/-) | 30,868 | 91 | 33,920.9 |
| **VI. Change in diverse other net technical provisions (+/-)** | **-31,786,551** | **2,950,530** | **-1,077.3** |
| 1. Change in the mathematical provision | -31,786,790 | 2,948,122 | -1,078.2 |
| 1.1. Change in the gross mathematical provision (+/-) | -31,786,790 | 2,948,122 | -1,078.2 |
| 2. Change in other net technical provisions (+/-) | 239 | 2,408 | 0.0 |
| 2.1. Change in gross other technical provisions (+/-) | 239 | 2,408 | 0.0 |
| **VIII. Net operating expenses** | **24,889,736** | **22,608,568** | **110.1** |
| 1. Acquisition costs | 6,902,369 | 6,288,523 | 109.8 |
| 2. Change in deferred acquisition costs (+/-) | -480,232 | -507,646 | 94.6 |
| 3. Other operating expenses | 18,470,024 | 16,825,357 | 109.8 |
| 3.1. Depreciation/amortisation of operating assets | 306,175 | 303,058 | 101.0 |
| 3.2. Personnel costs | 11,660,181 | 10,864,934 | 107.3 |
| 3.3. Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions | 104,840 | 88,627 | 118.3 |
| 3.4. Other operating expenses | 6,398,828 | 5,568,738 | 114.9 |
| 4. Income from reinsurance commission and reinsurance contract profit participation (-) | -2,425 | 2,334 | -103.9 |

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **IX. Investment expenses** | **642,671** | **802,579** | **80.1** |
| 1. Depreciation of investments not necessary for operations | 1,342 | 1,342 | 100.0 |
| 2. Asset management expenses, interest expenses and other financial expenses | 109,308 | 44,584 | 245.2 |
| 3. Financial expenses from revaluation | 249,633 | 566,491 | 44.1 |
| 4. Losses on disposal of investments | 282,388 | 190,162 | 148.5 |
| **X. Net unrealised losses on investments of life insurance policyholders who bear the investment risk** | **23,498,245** | **8,256,416** | **284.6** |
| **XI. Other net technical expenses** | **560,676** | **274,380** | **204.3** |
| 2. Other net technical expenses | 560,676 | 274,380 | 204.3 |
| **XIII. Balance on the technical account – life business (I+II+III+IV-V+VI-VII-VIII-IX-X-XI-XII)** | **12,546,561** | **12,446,249** | **100.8** |
| **C. Non-technical account** | | | |
| **I. Balance on the technical account – non-life business (A X)** | **27,000,090** | **19,163,288** | **140.9** |
| **II. Balance on the technical account – life business (B XIII)** | **12,546,561** | **12,446,249** | **100.8** |
| **III. Investment income** | **19,749,592** | **18,066,016** | **109.3** |
| 1. Income from participating interests | 1,125,242 | 867,529 | 129.7 |
| 2. Income from other investments | 16,809,679 | 14,866,580 | 113.1 |
| 2.1. Income from land and buildings | 1,146,475 | 514,115 | 223.0 |
| 2.2. Interest income | 9,366,807 | 10,348,682 | 90.5 |
| 2.3. Other investment income | 6,296,397 | 4,003,783 | 157.3 |
| 2.3.1 Financial income from revaluation | 6,289,559 | 3,992,467 | 157.5 |
| 2.3.2 Other financial income | 6,838 | 11,316 | 60.4 |
| 4. Gains on disposal of investments | 1,814,671 | 2,331,907 | 77.8 |
| **VII. Investment expenses** | **9,376,208** | **11,257,375** | **83.3** |
| 1. Depreciation of investments not necessary for operations | 261,956 | 167,068 | 156.8 |
| 2. Asset management expenses, interest expenses and other financial expenses | 38,428 | 728,378 | 5.3 |
| 3. Financial expenses from revaluation | 8,360,016 | 9,887,587 | 84.6 |
| 4. Losses on disposal of investments | 715,808 | 474,342 | 150.9 |
| **VIII. Allocated investment return transferred to the technical account for non-life business other than health business (A II)** | **2,398,687** | **-633,221** | **0.0** |
| **IX. Other technical income** | **12,101,652** | **7,409,828** | **163.3** |
| 1. Other income from non-life business other than health business | 11,968,837 | 7,155,449 | 167.3 |
| 2. Other income from life business | 132,815 | 254,379 | 52.2 |
| **X. Other technical expenses** | **15,155,066** | **9,518,526** | **159.2** |
| 1. Other expenses for non-life business other than health business | 15,005,410 | 9,085,146 | 165.2 |
| 2. Other expenses for life business | 149,656 | 433,380 | 34.5 |
| **XI. Other income** | **13,403,201** | **5,543,885** | **241.8** |
| 1. Other non-life income | 10,068,361 | 4,627,718 | 217.6 |
| 2. Other expenses for life business | 3,334,840 | 916,167 | 364.0 |

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **XII. Other expenses** | **2,610,563** | **2,605,603** | **100.2** |
| 1. Other non-life expenses | 2,589,464 | 2,480,907 | 104.4 |
| 2. Other expenses for life business | 21,099 | 124,696 | 16.9 |
| **XIII. Profit/loss for the year before tax (I+II+III+IV+V+VI-VII-VIII+IX-X+XI-XII)** | **55,260,572** | **39,880,983** | **138.6** |
| 1. Profit or loss for the period for non-life business | 39,417,111 | 26,822,264 | 147.0 |
| 2. Profit/loss for the period for life business | 15,843,461 | 13,058,719 | 121.3 |
| **XIV. Tax on profit** | **12,812,640** | **8,873,429** | **144.4** |
| 1.1. Tax on profit from non-life business | 10,014,553 | 6,360,033 | 157.5 |
| 1.2. Tax on profit for life business | 2,798,087 | 2,513,396 | 111.3 |
| **XV. Deferred tax** | **-563,917** | **-87,354** | **645.6** |
| 1.1. Deferred tax for non-life business | -559,955 | -253,223 | 221.1 |
| 1.2. Deferred tax for life business | -3,962 | 165,869 | -2.4 |
| **XVI. Net profit or loss for the period (XIII-XIV+XV)** | **43,011,849** | **31,094,908** | **138.3** |
| Breakdown of profit or loss | | | |
| - From non-life insurance business | 29,962,513 | 20,715,454 | 144.6 |
| - From life business | 13,049,336 | 10,379,454 | 125.7 |
| **D. Calculation of comprehensive income** | | | |
| **I. Profit/loss for the year, net of tax** | **43,011,849** | **31,094,908** | **138.3** |
| **II. Other comprehensive gain, net of tax (1+2+3+4+5+6+7+8+9+10)** | **-6,563,406** | **1,695,995** | **-387.0** |
| a) Items that will not be reclassified subsequently to profit or loss | 169,227 | 315,865 | 53.6 |
| 5. Other items that will not be reclassified subsequently to profit or loss | 187,270 | 386,089 | 48.5 |
| 6. Tax on items that will not be reclassified subsequently to profit or loss | -18,043 | -70,224 | 25.7 |
| b) Items that may be reclassified subsequently to profit or loss | -6,732,633 | 1,380,130 | -487.8 |
| 1. Net gains/losses on remeasuring available-for-sale financial assets | -8,415,539 | 855,424 | -983.8 |
| 4. Tax on items that may be reclassified subsequently to profit or loss | 1,700,210 | 21,508 | 7,904.9 |
| 5. Exchange differences on translating foreign operations | -17,304 | 503,198 | -3.4 |
| **III. Total comprehensive income (I + II)** | **36,448,443** | **32,790,903** | **111.2** |

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# APPENDIX B – FINANCIAL STATEMENTS OF SAVA RE PURSUANT TO REQUIREMENTS OF THE INSURANCE SUPERVISION AGENCY

### Statement of financial position

| (EUR) | | 31/12/2018 | 31/12/2017 | Index |
|---|---|---|---|---|
| ASSETS (A–F) | | 606,331,055 | 580,886,180 | 104.4 |
| **A.** | **Intangible assets** | **892,724** | **807,011** | **110.6** |
| **B.** | **Property, plant and equipment** | **2,654,540** | **2,485,645** | **106.8** |
| **D.** | **Deferred tax assets** | **1,867,370** | **1,238,826** | **150.7** |
| **E.** | **Investment property** | **8,285,733** | **8,230,878** | **100.7** |
| **F.** | **Financial investments in Group companies and associates** | **220,219,086** | **193,409,578** | **113.9** |
| **G.** | **Financial investments** | **244,291,434** | **250,781,685** | **97.4** |
| | - in loans and deposits | 10,107,498 | 12,840,885 | 78.7 |
| | - held to maturity | 2,075,425 | 2,075,111 | 100.0 |
| | - available for sale | 228,151,616 | 235,456,116 | 96.9 |
| | - measured at fair value | 3,956,895 | 409,573 | 966.1 |
| **I.** | **Amount of technical provisions transferred to reinsurers and co-insurers** | **21,437,221** | **20,073,571** | **106.8** |
| **K.** | **Receivables** | **87,830,299** | **88,602,395** | **99.1** |
| | 1. Receivables arising out of primary insurance business | 82,518,635 | 85,167,822 | 96.9 |
| | 2. Receivables arising out of reinsurance and co-insurance business | 4,842,279 | 3,202,926 | 151.2 |
| | 4. Other receivables | 469,385 | 231,647 | 202.6 |
| **L.** | **Other assets** | **8,201,196** | **8,578,133** | **95.6** |
| **M.** | **Cash and cash equivalents** | **10,651,452** | **6,678,458** | **159.5** |
| **N.** | **Off-balance sheet items** | **16,773,056** | **10,196,000** | **164.5** |

| (EUR) | | 31/12/2018 | 31/12/2017 | Index |
|---|---|---|---|---|
| EQUITY AND LIABILITIES (A–H) | | 606,331,055 | 580,886,180 | 104.4 |
| **A.** | **Equity** | **319,355,361** | **290,966,155** | **109.8** |
| 1. | Share capital | 71,856,376 | 71,856,376 | 100.0 |
| 2. | Capital reserves | 54,239,757 | 54,239,757 | 100.0 |
| 3. | Profit reserves | 159,486,153 | 138,552,405 | 115.1 |
| 4. | Fair value reserve | 2,697,381 | 3,804,764 | 70.9 |
| 5. | Reserve due to fair value revaluation | 40,772 | 13,524 | 301.5 |
| 6. | Retained earnings | 10,101,172 | 6,012,233 | 168.0 |
| 7. | Net profit or loss for the period | 20,933,749 | 16,487,096 | 127.0 |
| **C.** | **Technical provisions** | **234,173,078** | **232,639,163** | **100.7** |
| 1. | Unearned premiums | 47,147,505 | 47,602,457 | 99.0 |
| 3. | Provision for outstanding claims | 185,988,628 | 184,269,492 | 100.9 |
| 4. | Other technical provisions | 1,036,945 | 767,214 | 135.2 |
| **E.** | **Other provisions** | **376,521** | **351,250** | **107.2** |
| **I.** | **Other financial liabilities** | **87,504** | **91,182** | **96.0** |
| **J.** | **Liabilities from operating activities** | **49,185,680** | **54,404,921** | **90.4** |
| 1. | Liabilities from primary insurance business | 44,039,129 | 51,160,114 | 86.1 |
| 2. | Reinsurance and co-insurance payables | 3,149,394 | 3,090,008 | 101.9 |
| 3. | Current income tax liabilities | 1,997,157 | 154,799 | 1,290.2 |
| **K.** | **Other liabilities** | **3,152,911** | **2,433,509** | **129.6** |
| **L.** | **Off-balance sheet items** | **16,773,056** | **10,196,000** | **164.5** |

### Disclosure of off-balance sheet items

| (EUR) | 2018 | 2017 |
|---|---|---|
| Receivables from the cancellation of subordinated financial instruments | 10,038,000 | 10,038,000 |
| Contingent assets | 10,038,000 | 10,038,000 |

| (EUR) | 2018 | 2017 |
|---|---|---|
| Guarantees issued | 6,735,056 | 158,000 |
| Contingent liabilities | 6,735,056 | 158,000 |

In its off-balance sheet items for 2018 and 2017, the Company discloses contingent assets in the amount of the cancelled subordinated instruments regarding which the Company is continuing activities for the protection of its interests. In December 2016, claims were filed against the issuing banks of the subordinated financial instruments held by the Company prior to their cancellation.

## Income statement

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **Net earned premiums** | **133,740,178** | **130,864,620** | **102** |
| - Gross premiums written | 151,636,216 | 153,219,752 | 99 |
| - Written premiums ceded to reinsurers and co-insurers | -18,407,793 | -18,907,314 | 97 |
| - Change in unearned premiums | 511,755 | -3,447,818 | -15 |
| **Income from investments in associated companies, of this** | **33,558,455** | **26,136,830** | **128** |
| **Investment income** | **10,953,196** | **9,652,630** | **113** |
| **Other technical income, of this** | **8,964,961** | **6,098,385** | **147** |
| - commission income | 2,530,359 | 1,934,678 | 131 |
| **Other income** | **701,331** | **444,136** | **158** |
| **Net claims and benefits incurred** | **-76,604,633** | **-78,583,967** | **97** |
| - Gross claims and benefits paid | -82,687,678 | -83,525,449 | 99 |
| - Reinsurers' and co-insurers' shares | 6,495,334 | 5,982,760 | 109 |
| - Change in the provision for outstanding claims | -412,289 | -1,041,278 | 40 |
| **Change in other technical provisions** | **-268,920** | **-158,608** | **170** |
| **Expenses for bonuses and rebates** | **-811** | **85,678** | **-1** |
| **Operating expenses, of this** | **-47,563,317** | **-43,113,125** | **110** |
| - Acquisition costs | -34,804,618 | -32,304,854 | 108 |
| **Expenses relating to investments in subsidiaries and associates** | **-4,020,539** | **0** | **0** |
| **Investment expenses, of this** | **-8,496,351** | **-10,551,329** | **81** |
| - Impairment losses on financial assets not at fair value through profit or loss | -1,943,974 | -320,000 | 607 |
| **Other technical expenses** | **-5,662,287** | **-5,876,562** | **96** |
| **Other expenses** | **-279,399** | **-234,824** | **119** |
| **Profit or loss before tax** | **45,021,864** | **34,763,864** | **130** |
| **Income tax expense** | **-3,154,368** | **-1,789,672** | **176** |
| **Net profit or loss for the period** | **41,867,497** | **32,974,192** | **127** |
| **Basic earnings/loss per share** | **2.70** | **2.13** | **126.97** |
| **Diluted earnings/loss per share** | **2.70** | **2.13** | **126.97** |

## Statement of other comprehensive income

| (EUR) | 2018 | 2017 | Index |
|---|---|---|---|
| **A Technical account – non-life business other than health business** | | | |
| **I. Net earned premiums** | **133,740,178** | **130,864,621** | **102.2** |
| 1. Gross premiums written | 151,636,216 | 153,219,752 | 99.0 |
| 4. Gross reinsurance premiums written (-) | -18,407,793 | -18,907,314 | 97.4 |
| 5. Change in gross unearned premiums (+/-) | 454,952 | -4,257,043 | -10.7 |
| 6. Change in unearned premiums, reinsurers' and co-insurers' shares (+/-) | 56,803 | 809,225 | 7.0 |
| **II. Allocated investment return transferred from the non-technical account (item D VIII)** | **-2,398,687** | **-633,221** | **378.8** |
| **IV. Net claims and benefits incurred** | **76,604,633** | **78,583,967** | **97.5** |
| 1. Gross claims and benefits paid | 84,882,093 | 85,409,808 | 99.4 |
| 2. Income from realised gross recourse receivables (-) | -2,194,416 | -1,884,359 | 116.5 |
| 4. Reinsurers' shares paid (-) | -6,495,334 | -5,982,760 | 108.6 |
| 5. Change in the gross claims provision (+/-) | 1,719,136 | 2,101,712 | 81.8 |
| 6. Change in the reinsurers' and co-insurers' share of the claims provision (+/–) | -1,306,847 | -1,060,434 | 123.2 |
| **V. Change in other net technical provisions (+/-)** | **-268,920** | **158,608** | **-169.6** |
| **VI. Net expenses for bonuses and rebates** | **811** | **-85,678** | **-1.0** |
| **VII. Net operating expenses** | **45,032,958** | **41,178,447** | **109.4** |
| 1. Acquisition costs | 34,848,052 | 33,185,632 | 105.0 |
| 2. Change in deferred acquisition costs (+/-) | -43,433 | -880,778 | 4.9 |
| 3. Other operating expenses | 12,758,699 | 10,808,271 | 118.1 |
| 3.1. Depreciation/amortisation of operating assets | 481,036 | 420,825 | 114.3 |
| 3.2. Personnel costs | 8,298,393 | 6,832,682 | 121.5 |
| 3.3. Costs of services by natural persons not performing business (costs relating to contracts for services, copyright contracts and relating to other legal relationships), incl. of contributions | 185,715 | 163,472 | 113.6 |
| 3.4. Other operating expenses | 3,793,554 | 3,391,292 | 111.9 |
| 4. Income from reinsurance commission and reinsurance contract profit participation (-) | -2,530,359 | -1,934,678 | 130.8 |
| **VIII. Other net technical expenses** | **199,205** | **191,679** | **103.9** |
| 1. Expenses for loss prevention activities | 20 | 23 | 84.8 |
| 3. Other net technical expenses | 199,186 | 191,656 | 0.0 |
| **IX. Balance on the technical account – non-life business other than health business (I+II+III-IV+V-VI-VII-VIII)** | **9,234,963** | **10,204,376** | **90.5** |

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## Statement of other comprehensive income – continued

| (EUR) | | | 2018 | 2017 | Index |
|---|---|---|---|---|---|
| **C.** | **Non-technical account** | | | | |
| **I.** | **Balance on the technical account – non-life business other than health business (A X)** | | **9,234,963** | **10,204,376** | **90.5** |
| **III.** | **Investment income** | | **45,204,363** | **36,115,607** | **125.2** |
| | 1. | Income from participating interests | 34,234,600 | 26,755,664 | 128.0 |
| | | 1.1. Income from participating interests in Group companies | 33,558,455 | 26,136,830 | 0.0 |
| | | 1.3. Income from participating interests in other companies | 676,145 | 618,834 | 109.3 |
| | 2. | Income from other investments | 10,400,614 | 8,054,994 | 129.1 |
| | | 2.1. Income from land and buildings | 692,712 | 326,147 | 212.4 |
| | | - in Group companies | 6,506 | 11,152 | 58.3 |
| | | - in other companies | 686,207 | 314,995 | 217.9 |
| | | 2.2. Interest income | 3,589,693 | 3,895,944 | 92.1 |
| | | - in Group companies | 89,531 | 120,856 | 74.1 |
| | | - in other companies | 3,500,162 | 3,775,088 | 92.7 |
| | | 2.3. Other investment income | 6,118,208 | 3,832,903 | 159.6 |
| | | 2.3.1 Financial income from revaluation | 6,112,531 | 3,822,729 | 159.9 |
| | | - in other companies | 6,112,531 | 3,822,729 | 159.9 |
| | | 2.3.2 Other financial income | 5,677 | 10,174 | 55.8 |
| | | - in other companies | 5,677 | 10,174 | 55.8 |
| | 4. | Gains on disposal of investments | 569,149 | 1,304,949 | 43.6 |
| **V.** | **Investment expenses** | | **12,656,011** | **10,638,299** | **119.0** |
| | 1. | Depreciation of investments not necessary for operations | 139,121 | 86,970 | 160.0 |
| | 2. | Asset management expenses, interest expenses and other financial expenses | 0 | 718,760 | 0.0 |
| | 3. | Financial expenses from revaluation | 12,173,565 | 9,626,269 | 126.5 |
| | 4. | Losses on disposal of investments | 343,324 | 206,300 | 166.4 |
| **VI.** | **Allocated investment return transferred to the technical account for non-life business other than health business (A II)** | | **-2,398,687** | **-633,221** | **378.8** |
| **VII.** | **Other technical income** | | **6,434,602** | **4,163,707** | **154.5** |
| | 1. | Other income from non-life business other than health business | 6,434,602 | 4,163,707 | 154.5 |

| (EUR) | | | 2018 | 2017 | Index |
|---|---|---|---|---|---|
| **VIII.** | **Other technical expenses** | | **5,463,081** | **5,684,883** | **96.1** |
| | 1. | Other expenses for non-life business other than health business | 5,463,081 | 5,684,883 | 96.1 |
| **IX.** | **Other income** | | **8,619** | **117,989** | **7.3** |
| | 1. | Other non-life income | 8,619 | 117,989 | 7.3 |
| **X.** | **Other expenses** | | **140,277** | **147,854** | **94.9** |
| | 1. | Other non-life expenses | 140,277 | 147,854 | 94.9 |
| **XI.** | **Profit or loss for the year before tax (I+II+III+IV-V-VI+VII-VIII+IX-X)** | | **45,021,864** | **34,763,864** | **129.5** |
| | 1. | Profit or loss for the period for non-life business | 45,021,864 | 34,763,864 | 129.5 |
| **XIV.** | **Tax on profit** | | **3,525,687** | **1,661,173** | **212.2** |
| | 1.1. | Tax on profit from non-life business | 3,525,687 | 1,661,173 | 212.2 |
| **XV.** | **Deferred tax** | | **-371,319** | **128,499** | **-289.0** |
| | 1.1. | Deferred tax for non-life business | -371,319 | 128,499 | -289.0 |
| **XVI.** | **Net profit or loss for the period (XIII-XIV+XV)** | | **41,867,497** | **32,974,192** | **127.0** |
| | Breakdown of profit or loss | | | | |
| | - From non-life insurance business | | 41,867,497 | 32,974,192 | 127.0 |
| **D.** | **Calculation of comprehensive income** | | | | |
| **I.** | **Net profit or loss for the year** | | **41,867,497** | **32,974,192** | **127.0** |
| **II.** | **Other comprehensive gain, net of tax (1+2+3+4+5+6+7+8+9+)** | | **-1,080,135** | **34,502** | **-3,130.6** |
| | a) | Items that will not be reclassified subsequently to profit or loss | 27,248 | 15,289 | 178.2 |
| | | 5. Other items that will not be reclassified subsequently to profit or loss | 29,779 | 16,894 | 176.3 |
| | | 6. Tax on items that will not be reclassified subsequently to profit or loss | -2,531 | -1,605 | 157.7 |
| | b) | Items that may be reclassified subsequently to profit or loss | -1,107,382 | 19,213 | -5,763.7 |
| | | 1. Čisti dobički/izgube iz ponovne izmere finančnih sredstev, razpoložljivih za prodajo | -1,367,140 | 23,719 | -5,763.9 |
| | | 5. Tax on items that may be reclassified subsequently to profit or loss | 259,758 | -4,506 | -5,764.7 |
| **III.** | **Comprehensive income for the year, net of tax (I + II)** | | **40,787,362** | **33,008,694** | **123.6** |

# APPENDIX C – GLOSSARY OF SELECTED TERMS AND CALCULATION METHODOLOGIES FOR INDICATORS

**Accounting currency**. A local currency used in the accounting documentation. Reinsurance contracts may be accounted for using various accounting currencies. Generally, this is the currency in which are denominated liabilities and receivables in relation to the cedant, and hence also the reinsurer.

**Administrative expense ratio**. The ratio of operating expenses net of acquisition costs and change in deferred acquisition costs as a percentage of gross premiums written.

**Associate**. An entity over which the investor has significant influence (the power to participate in the financial and operating policy decisions) and that is neither a subsidiary nor an interest in a joint venture.

**Book value per share**. Ratio of total equity to weighted average number of shares outstanding.

**Business continuity plan**. Document comrising procedures for ensuring continuity of key business processes and systems. The contingency plan is an integral part of the business continuity plan, setting out technical and organisational measures to return to normal operation and minimise the consequences of severe business disruptions.

**BVAL price**. Engl. Bloomberg valuation price. The price obtained from the Bloomberg information system.

**Capital fund**. Assets representing the capital of the Company.

**CBBT price**. Engl. Composite Bloomberg Bond Trader price. Closing price available in the Bloomberg information system based on binding bids.

**Cedant, cede, cession**. A cedant is the client of a reinsurance company. To cede is to transfer part of any risk an insurer has underwritten to a reinsurer. The part thus transferred to any reinsurer is called a cession.

**Chief Operating Decision Maker (CODM)**. CODM may refer to a person responsible for monitoring an operating segment or to a group of persons responsible for allocating resources, and monitoring and assessing performance. CODM is a function and not a title.

**Claims paid**. Claims and benefits booked during a given period for claims resolved either fully or in part, including loss adjustment expenses. Gross/net – before/after deduction of reinsurance. Gross claims paid are gross claims paid less subrogation receivables. Net claims paid is short for net claims payments.

**Claims risk**. The risk that the number of claims or the average claim amount will be higher than expected.

**Composite insurer**. Insurer that writes both life and non-life business.

**Comprehensive income**. The sum of net profit for the period and other comprehensive income for the period, net of tax. The latter comprises the effects of other gains and losses not recognised in the income statement that affect equity, mainly through the fair value reserve.

**Consolidated book value per share**. Ratio of consolidated total equity to weighted average number of shares outstanding.

**Consolidated earnings per share**. Ratio of net profit/loss attributable to equity holders of the controlling company as a percentage of the weighted average number of shares outstanding.

**Credit risk**. The risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations.

**Currency risk**. The sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.

**Dividend yield**. Ratio of dividend per share to the average price per share in the period.

**Earnings per share**. Ratio of net profit/loss as a percentage of the weighted average number of shares outstanding.

**EIOPA**. European Insurance and Occupational Pensions Authority.

**Eligible own funds**. The value of own funds eligible to cover the solvency capital requirement.

**Equity risk**. The sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.

**Excess of loss reinsurance**. A type of reinsurance in which the insurer agrees to pay a specified portion of a claim and the reinsurer agrees to pay all or a part of the claim above the specified currency amount or "retention".

**Facultative reinsurance**. A type of reinsurance under which the ceding company has the option to cede and the reinsurer has the option to accept or decline individual risks of the underlying policy. Typically used to reinsure large individual risks or for amounts in excess of limits on risks already reinsured elsewhere.

**FATCA**. Foreign Account Tax Compliance Act; for details see http://www.sava-re.si/en/o-druzbi/FATCA/

**Financial investments**. Financial investments do not include financial investments in associates, investment property nor cash and cash equivalents.

**Financial risk**. It comprises the risk of failure to achieve the guaranteed return, interest rate risk, equity risk, risk of alternative investments, currency risk, liquidity risk and credit risk.

**Gross claims paid**. Claims and benefits booked during a given period for claims resolved either fully or in part, including loss adjustment expenses, and net of recourse receivables. Gross claims paid are claims before deduction of reinsurance.

**Gross expense ratio**. The ratio of operating expenses as a percentage of gross premiums written.

**Gross incurred loss ratio**. Gross claims paid, including the change in the gross provision for outstanding claims, as a percentage of gross premiums written gross of the change in gross unearned premiums.

**Gross operating expenses**. Operating expenses, excluding commission income.

**Gross premiums written**. The total premiums on all policies written or renewed during a given period regardless of what portions have been earned. Gross premiums written are premiums before deduction of reinsurance.

**Gross/net**. In insurance terminology, the terms gross and net usually denote figures before and after deduction of reinsurance.

**IBNER**. Provision for claims that are Incurred But Not Enough Reported.

**IBNR**. Provision for claims that are Incurred But Not Reported.

**Insurance density**. The ratio of gross premiums written as a percentage of the number of inhabitants.

**Insurance penetration**. The ratio of gross premiums written as a percentage of gross domestic product.

**Interest rate risk**. The sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.

**Investment portfolio**. The investment portfolio includes financial investments in associates, investment property, and cash and cash equivalents.

**Liability fund**. Assets covering technical provisions.

**Life insurance register of assets**. Register of assets used to cover mathematical provisions.

**Liquidity risk**. The risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.

**Market risks**. Include interest rate risk, equity risk and currency risk.

**Minimum capital requirement (MCR)**. The minimum capital requirement must be equal to the amount of eligible own funds under which policyholders, insured persons and other beneficiaries under insurance contracts would be exposed to an unacceptable risk level if the undertaking were allowed to continue operations.

**Net claims incurred**. Net claims payments (short: net claims paid) in the period gross of the change in the net provision for outstanding claims.

**Net claims paid**. Claims and benefits booked during a given period for claims resolved either fully or in part, including loss adjustment expenses, and net of recourse receivables and reinsurers' and co-insurers' share of claims paid. Gross claims paid are gross claims paid less subrogation receivables.

**Net combined ratio**. Ratio of total expenses net of investment expenses as a percentage of total income net of investment income.

**Net expense ratio**. The ratio of operating expenses, net of commission income, as a percentage of net earned premiums.

**Net incurred loss ratio**. Net claims incurred gross of the change in other technical provisions as a percentage of net premiums earned.

**Net investment income of the investment portfolio**. Calculated from income statements items: income from investments in subsidiaries and associates + investment income + income from investment property – expenses for investments in subsidiaries and associates – expenses for financial assets and liabilities – expenses for investment property. Income from and expenses for investment property are included in the other income / other expenses item. Net investment income of the investment portfolio does not include net unrealised gains or losses on investments of life insurance policyholders who bear the investment risk as these do not affect the income statement. These items move in line with the mathematical provision of policyholders who bear the investment risk.

**Net operating expenses**. Operating expenses net of commission income.

**Net premiums earned**. Net premiums written for a given period adjusted for the change in net unearned premiums.

**Net premiums written**. The total premiums on all policies written or renewed during a given period regardless of what portions have been earned. Net premiums written are premiums after deduction of reinsurance.

**Net retention risk**. The risk that higher retention of insurance loss exposures results in large losses due to catastrophic or concentrated claims experience.

**Net/gross**. In insurance terminology, the terms gross and net usually denote figures before and after deduction of reinsurance.

**Non-life insurance register of assets**. Register of assets used to cover non-life technical provisions.

**Non-proportional reinsurance (excess reinsurance)**. A reinsurance arrangement whereby the reinsurer indemnifies a ceding company above a specified level (usually a monetary amount) of losses that the ceding company has underwritten. A deductible amount is set and any loss exceeding that amount is paid by the reinsurer.

**Operating revenues**. Total income less investment income.

**Operational limit**. Operational limits for particular areas are determined on the basis of expressed risk tolerance limits. In absolute terms, this is the maximum amount acceptable for a particular risk so that the Company remains within its risk appetite framework.

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

**ORSA**. Own risk and solvency assessment: an own assessment of the risks associated with an insurer's business and strategic plan, and the sufficiency of own funds to support those risks

**OTC market**. Engl. Over-The-Counter market. OTC market transactions are transactions outside the regulated market.

**Paid loss ratio**. The ratio of gross claims paid as a percentage of gross premiums written.

**Premiums written**. The total premiums on all policies written or renewed during a given period regardless of what portions have been earned. Gross/net – before/after deduction of reinsurance.

**Pricing risk**. The risk that (re)insurance premiums charged will be insufficient to cover future obligations arising from (re)insurance contracts.

**Primary insurer**. Insurance company that has a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

**Proportional reinsurance**. A reinsurance arrangement whereby the reinsurer indemnifies a ceding company for a pre-agreed proportion of premiums and losses of each policy that the ceding company has underwritten. It can be subdivided into two main types: quota-share reinsurance and surplus reinsurance.

**RBNS**. Provision for claims that are Reported But Not Settled.

**Recourse receivables**. Amount of recourse claims which were recognised in the period as recourse receivables based on (i) any agreement with any third parties under recourse issues, (ii) court decisions, or (iii) for credit business – settlement of insurance claim.

**Reputation risk**. Risk of loss due to the Company's negative image as perceived by its policyholders, business partners, owners and investors, supervisors or other stakeholders.

**Reserve risk**. Risk that technical provisions are not sufficient to cover the commitments of the (re)insurance business assumed.

**Reserving risk**. The risk that technical provisions will be inadequate.

**Retention ratio**. Ratio of net premiums written as a percentage of gross premiums written.

**Retention**. The amount or portion of risk (loss) that a ceding company retains for its own account, and does not reinsure. Losses and loss expenses in excess of the retention level are then paid by the reinsurer to the ceding company up to the limit of indemnity, if any, set out in the reinsurance contract. In proportional reinsurance, the retention may be a percentage of the original policy's limit. In non-proportional insurance, the retention is usually a monetary amount of loss, a percentage of loss or a loss-to-premium ratio.

**Retrocession**. The reinsurance bought by reinsurers; a transaction by which a reinsurer cedes risks to another reinsurer.

**Return on equity (ROE)**. The ratio of net profit for the period as a percentage of average equity in the period.

**Return on the investment portfolio**. The ratio of net investment income relating to the investment portfolio to average invested assets. It includes the following statement of financial position items: investment property, financial investments in subsidiaries and associates, financial investments and cash and cash equivalents. The average amount is calculated based on figures as at the reporting date and as at the end of the prior year.

**Risk appetite**. The level of risk that a company is willing to take in pursuit of its strategic objectives. It is determined based on the acceptable solvency ratio, ratio of high-quality liquid assets as a percentage of the investment portfolio, profitability of insurance products and reputation risk.

**Risk register**. Catalogue of all identified risks maintained regularly updated by the Company.

**Solvency capital requirement (SCR)**. Level of capital calculated as prescribed by law based on all measurable risks, including life and non-life insurance risk, health insurance risk, market risk, counterparty default risk and operational risk.

**Solvency ratio**. The ratio of eligible own funds as a percentage of the SCR. A solvency ratio in excess of 100% indicates that the firm has sufficient resources to meet the SCR.

**Standard formula**. Formulas laid down by Solvency II regulations for the calculation of the Solvency Capital Requirement.

**Strategic risk**. Risk of unexpected decline in the company's value due to adverse impact of wrong business decisions, changes to the business or legal environment and market development.

**Subsidiary entity**. An entity that is controlled by another entity.

**Transaction currency**. The currency in which reinsurance contract transactions are processed.

**Underwriting process risk**. Risk of financial loss due to incorrect selection and approval of risks to be (re)insured.

**Underwriting result**. Profit or loss realised from insurance operations as opposed to that realised from investments or other items.

**Underwriting risk**. Risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and provisioning assumptions. Underwriting risk comprises underwriting process risk, pricing risk, claims risk, retention risk and reserving risk.

**Unearned premiums**. The portion of premiums written that applies to the unexpired portion of the policy period and is attributable to and recognised as income in future years.

# APPENDIX C2 – GRI INDEX[153]

| GENERAL STANDARD DISCLOSURES | | | |
|---|---|---|---|
| **GRI standard and disclosure** | **Description** | **Section** | **Topic boundary and notes/limitations** |
| **GRI 101: Foundation 2018** | | | |
| **GRI 102: General disclosures 2018** | | | |
| **Organisational profile 2018** | | | |
| 102-1 | Name of the organisation | s. 2.1 | Sava Re |
| 102-2 | Activities, brands, products, and services | s. 2.7, s. 2.8 | Sava Re Group |
| 102-3 | Location of headquarters | s. 2.1 | Sava Re |
| 102-4 | Location of operations | s. 2.6 | Sava Re Group |
| 102-5 | Ownership and legal form | s. 2.1, s. 5.6 | Sava Re |
| 102-6 | Markets served (by region, industry and type of customers) | s. 2.8, pred s. 19 | Sava Re Group |
| 102-7 | Scale of the organisation | s. 2.8, s. 10.3.1, s. 16.2, s. 17.2, s. 20.3.3 | Sava Re Group |
| 102-8 | Information on employees | s. 5.3.2, s. 10.1, s. 10.3.1, s. 20.3.3 | Sava Re Group |
| 102-9 | Supply chain | s. 13 | Sava Re Group |
| 102-10 | Significant changes to the organisation | s. 2.9 | Sava Re Group |
| 102-11 | Precautionary principle or approach | s. 11, s. 17.6, s. 20.4, s. 23.5 | Sava Re Group |
| 102-12 | External documents, principles and other economic, environmental and social initiatives that the organisation supports | s. 13 | Sava Re and Zavarovalnica Sava |
| 102-13 | Membership of associations | s. 13 | Sava Re |
| **Strategy** | | | |
| 102-14 | Statement from senior decision-maker on the importance of sustainable development for the organisation and its strategy | s. 1 | Sava Re |
| **Ethics and integrity** | | | |
| 102-16 | Values, principles, standards, and norms of behaviour, including codes of conduct and ethics | s. 5.3, s. 6.1, s. 13 | Sava Re Group |
| **Governance** | | | |
| 102-18 | Governance structure | s. 2.8, s. 5.3, s. 20.3.5 | Sava Re Group |

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| GENERAL STANDARD DISCLOSURES | | | |
|---|---|---|---|
| **GRI standard and disclosure** | **Description** | **Section** | **Topic boundary and notes/limitations** |
| **Stakeholders** | | | |
| 102-40 | List of stakeholder groups | s. 13 | Sava Re Group |
| 102-41 | Collective bargaining agreements | s. 10.3.1, s. 13, s. 20.3.3 | Sava Re Group |
| 102-42 | Identifying and selecting stakeholders | s. 3.3, s. 13 | Sava Re Group |
| 102-43 | Approach to stakeholder engagement | s. 3.3, p.13 | Sava Re Group stakeholders have not been involved in the SR process. |
| 102-44 | Key topics and concerns raised in stakeholder engagement and response by the organisation (also via reporting) | s. 13 | Sava Re Group Stakeholders have not been involved in the SR process, which is why no responses have been obtained. |
| **Reporting practice** | | | |
| 102-45 | Entities included in the consolidated financial statements | s. 13, s. 2.5, s. 17.2 | Sava Re Group |
| 102-46 | Defining report content and topic boundaries | s. 13 | Sava Re Group stakeholders have not been involved in the SR process, which is why no materiality matrix has been designed. |
| 102-47 | List of material topics | s. 13 | skupina Sava Re |
| 102-48 | Restatements of information | s. 13 | Sava Re Group There are no changes because this is the first report. |
| 102-49 | Changes in reporting regarding topic boundaries | s. 13 | Sava Re Group There are no changes because this is the first report. |
| 102-50 | Reporting period | s. 13 | Sava Re Group |
| 102-51 | Date of most recent report | s. 13 | Sava Re Group: the latest Annual report of the Sava Re Group and Sava Re d.d. for 2017 was published on 5 April 2018. |
| 102-52 | Reporting cycle | s. 13 | Sava Re Group |
| 102-53 | Contact point for questions regarding the report | s. 2.1 | Sava Re Group |
| 102-54 | Claims of reporting in accordance with the GRI Standards | s. 13 | Sava Re Group |
| 102-55 | GRI content index | s. 13 | Sava Re Group |
| 102-56 | External assurance | s. 13 | / |

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| SPECIFIC STANDARD DISCLOSURES | | | |
|---|---|---|---|
| **Disclosures on management approach** | **Material topics** | **Section** | **Reasons for omission/ notes** |
| **ECONOMIC IMPACTS** | | | |
| **GRI 201: Economic performance** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 6.3, s. 10.1, s. 10.3, s. 10.4, s. 10.5, s. 13, s. 20.3.1, s. 20.3.3, s. 20.3.4, s. 20.3.5 | Sava Re Group |
| 201-1 | Direct economic value generated and distributed | s. 13 | Sava Re Group |
| 201-2 | Financial implications and other risks and opportunities due to climate change | s. 2.2, s. 8.1, s. 13, s. 20.1 | Sava Re Group |
| 201-3 | Defined benefit plan obligations | s. 13 | Sava Re Group |
| 201-4 | Financial assistance received from government | s. 3.2, s. 5.6, s. 13 | Sava Re Group |
| **GRI 202: Market presence** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re Group |
| 202-2 | Proportion of senior management hired from the local community | s. 2.8, s. 5.3.4 | Sava Re Group |
| **GRI 203: Indirect economic impacts** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re Group |
| 203-1 | Infrastructure investments and services supported | s. 13 | Sava Re Group |
| 203-2 | Major indirect economic impacts | s. 13 | Sava Re Group |
| **GRI 204: Procurement practices** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re Group |
| 204-1 | Proportion of spending on local suppliers | s. 13 | Sava Re Group |
| **GRI 205: Anti-corruption** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re Group |
| 205-1 | Operations assessed for risks related to corruption | s. 13 | Sava Re Group |
| 205-3 | Confirmed incidents of corruption and actions taken | S. 13 | Sava Re Group |

| SPECIFIC STANDARD DISCLOSURES | | | |
|---|---|---|---|
| **Disclosures on management approach** | **Material topics** | **Section** | **Reasons for omission/ notes** |
| **ENVIRONMENTAL STANDARDS** | | | |
| **GRI 302: Energy** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re, Zavarovalnica Sava, Sava Pokojninska |
| 302-1 | Energy consumption within the organisation | s. 13 | Sava Re, Zavarovalnica Sava |
| **GRI 306: Effluents and waste** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re, Zavarovalnica Sava, Sava Pokojninska |
| 306-2 | Waste by type and disposal method | s. 13 | Sava Re, Zavarovalnica Sava, Sava Pokojninska |
| **GRI 308: Supplier environmental assessment** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re Group |
| 308-1 | New suppliers that were screened using environmental criteria | s. 13 | Sava Re |

| SPECIFIC STANDARD DISCLOSURES | | | |
|---|---|---|---|
| **Disclosures on management approach** | **Material topics** | **Section** | **Reasons for omission/ notes** |
| **SOCIAL IMPACTS** | | | |
| **GRI 401: Recruitment** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 10, s. 20.3 | Sava Re Group |
| 401-1 | Employment and fluctuation | s. 10.3.2, s. 13, s. 20.3.3 | Sava Re Group |
| **GRI 403: Health and safety at work** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 10, s. 20.3 | Sava Re Group |
| 403-2 | Lost days | s. 10.3.1, s. 20.3.3 | Sava Re Group |
| **GRI 404: Education and training** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 10, s. 20.3 | Sava Re Group |
| 404-1 | Average hours of training per year per employee | s. 10.4, s. 13, s. 20.3.4 | Sava Re Group |
| 404-3 | Percentage of employees receiving regular performance and career development reviews | s. 10.5.1, s. 13, s. 20.3.5 | Sava Re Group |
| **GRI 405: Diversity and equal opportunities** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 10, s. 20.3 | Sava Re Group |
| 405-1 | Diversity of governance bodies and employees | s. 5.3.2, s. 10.3.1, s. 13, s. 20.3.3 | Sava Re Group |
| 405-2 | Ratio of basic salary and remuneration of women to men in all employee categories | s. 20.3.3 | Sava Re |
| **SOCIAL IMPACTS** | | | |
| **413: Local communities** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re Group |
| 413-1 | Operations with local community engagement, impact assessments, and development programs | s. 13 | Sava Re Group |
| **GRI 414: Assessment of supplier in terms of impact on society** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re and Zavarovalnica Sava |
| 414-1 | New suppliers that were screened using social criteria | s. 13 | Sava Re and Zavarovalnica Sava |
| **GRI 417: Marketing and labelling** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re Group |
| 417-1 | Requirements for product and service information and labelling | s. 13 | Sava Re Group |
| **GRI 419: Compliance** | | | |
| 103-1, 103-2, 103-3 | Management approach | s. 13 | Sava Re Group |
| 419-1 | Non-compliance with laws and regulations | s. 13 | Sava Re Group |

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